

IRELL & MANELLA LLP
John C. Hueston (164921; jhueston@irell.com)
Michael Fehner (207312; mfehner@irell.com)
840 Newport Center Drive, Suite 400
Newport Beach, CA 92660-6324
Telephone: (949) 760-0991
Facsimile: (949) 760-5200

STATE COMPENSATION INSURANCE FUND
Linda S. Platisha (195281; lsplatisha@scif.com)
1750 E. Fourth Street, Suite 450
Santa Ana, CA 92705
Telephone: (714) 347-6130
Facsimile: (714) 347-6145

Attorneys for *Plaintiff* STATE COMPENSATION
INSURANCE FUND, a Public Enterprise Fund
and Independent Agency of the State of California

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

STATE COMPENSATION INSURANCE)
FUND,)
Plaintiff,)
v.)

MICHAEL D. DROBOT, SR., an)
individual; MICHAEL R. DROBOT, JR.,)
an individual; HEALTHSMART PACIFIC)
INC., a California corporation;)
HEALTHSMART PACIFIC INC. d/b/a)
PACIFIC HOSPITAL OF LONG BEACH,)
a California corporation; LONG BEACH)
PAIN CENTER MEDICAL CLINIC,)
INC., a California corporation;)
INDUSTRIAL PHARMACY)
MANAGEMENT LLC, a California)
limited liability company; CALIFORNIA)
PHARMACY MANAGEMENT LLC, a)
California limited liability company;)
COASTAL EXPRESS PHARMACY,)
INC., a California corporation; LONG)
BEACH PRESCRIPTION PHARMACY,)
a California corporation; MEDS)
MANAGEMENT GROUP, LLC, a)
California limited liability company, and)
DOES 1 through 10, Inclusive,)

Defendants.

Case No. 13-00956 AG (CWx)

**FIRST AMENDED COMPLAINT
OF PLAINTIFF STATE
COMPENSATION INSURANCE
FUND FOR:**

- (1) **18 U.S.C. § 1962(c) (CIVIL RICO);**
- (2) **18 U.S.C. § 1962(d) (CIVIL RICO CONSPIRACY);**
- (3) **FRAUD; AND**
- (4) **UNFAIR COMPETITION (Bus. & Prof. Code § 17200)**

[JURY TRIAL DEMANDED]

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1 Plaintiff State Compensation Insurance Fund (“State Fund”) alleges as
2 follows in this federal question action, over which this court has jurisdiction
3 pursuant to 28 U.S.C. § 1331 and 28 U.S.C. § 1367(a).

4 **I. SUMMARY OF ACTION**

5 1. Defendants conspired and participated in a broad and multi-faceted
6 plan to defraud State Fund in connection with the submission and collection of
7 fraudulent insurance bills for medical services, spinal implant hardware, and
8 medications under State Fund-issued policies of workers’ compensation insurance.

9 2. State Fund provides workers’ compensation insurance to California
10 employers, with no financial obligation to the public, and is the largest provider of
11 workers’ compensation insurance in California. When a covered employee suffers
12 an on-the-job injury, State Fund’s primary goal is to insure that the injured worker
13 receives proper medical treatment by a provider. The provider is then supposed to
14 bill State Fund for the procedures performed or medicine supplied under the
15 appropriate workers’ compensation guidelines.

16 3. Defendants have formed two connected enterprises which have
17 undertaken multiple fraudulent schemes to subvert this process and defraud State
18 Fund. Defendant Michael D. Drobot, Sr. (“Drobot Sr.”) owns and operates
19 Defendants Healthsmart Pacific, Inc., Healthsmart Pacific, Inc. d/b/a Pacific
20 Hospital of Long Beach (“Pacific Hospital”), and Long Beach Pain Center Medical
21 Clinic, Inc. (“Long Beach Pain,” with entities referred to as the “Surgical
22 Defendants”) — Defendant Michael R. Drobot, Jr. (“Drobot Jr.”) is also a part of
23 this enterprise as detailed in Sections II, IV, and V, below. The Surgical Defendants
24 and Individual Defendants (the Drobots) conducted the Surgical Defendant
25 Enterprise to defraud State Fund with respect to surgical procedures performed on
26 workers’ compensation claimants at Pacific Hospital and Long Beach Pain. State
27 Fund has been billed for thousands of surgical procedures at Pacific Hospital and
28 Long Beach Pain over the past decade; State Fund’s investigation shows it has been

1 over-billed, double-billed, and defrauded out of millions, if not hundreds of
2 millions, of dollars.

3 4. In Section V below, State Fund articulates five separate yet connected
4 schemes conducted by the Surgical Defendant Enterprise in order to defraud State
5 Fund while simultaneously concealing the misconduct. Each of these schemes is
6 supported by a separate spreadsheet of examples, broken down by entity, contained
7 on the compact disc lodged with this Amended Complaint. The schemes are:

8 (a) Forming and using shell corporations to grossly and fraudulently
9 increase the bills to State Fund of spinal implants used in Pacific Hospital's
10 spinal surgeries. For example, the Individual Defendants created a company
11 called International Implants and represented it as an implant manufacturer.
12 In reality, International Implants simply bought implants from other
13 manufacturers across the country and then grossly inflated the price at which
14 it resold the implants to Pacific Hospital, which Pacific Hospital then billed to
15 State Fund as the implant's actual cost.

16 (b) Billing for services at substantially higher rates than allowed under
17 controlling regulations by, among other things, "upcoding" and "unbundling"
18 items in their billings.¹ For example, Pacific Hospital would bill State Fund
19 separately for toxicology tests using five different codes and charging for all
20 of them, even though one code covered all of the administered tests.

21
22
23 ¹ "Upcoding" is a practice of using medical treatment codes in the submission
24 of insurance claims that represent a substantially higher billing price than the set
25 amount for the actual services rendered. Similarly, many procedures, such as
26 surgeries, are by regulation charged at a rate bundling together a number of
27 necessary elements or pieces of equipment for the procedure. Instead of simply
28 charging the bundled rate, the Surgical Defendants here took particular items or
steps involved in the procedure, "unbundled" them, and billed them separately,
resulting in a significantly higher bill.

1 (c) Billing Pacific Hospital nurses separately (as assistant surgeons), when
2 nurses are considered part of the procedure's cost (a particular type of
3 "unbundling").

4 (d) Billing State Fund separately for autologous transfusions (a procedure
5 used to save the patient's blood during surgeries), when that cost is included,
6 by regulation, in the bundled cost of inpatient admission.

7 (e) Double-billing State Fund for the technical component for radiology
8 procedures performed at Long Beach Pain, which was also billed by the
9 owner of the equipment used for the procedures.

10 5. The Surgical Defendants concealed this course of conduct for over a
11 decade (in the case of the Individual Defendants and Pacific Hospital, as Long
12 Beach Pain was formed later), by falsifying invoices and purchase orders,
13 submitting fraudulent bills, hiding the common ownership of the entities in the
14 enterprise, and obstructing State Fund's attempts to investigate any issues.

15 6. The Individual Defendants also conducted many of the same fraudulent
16 schemes using pharmacies and medication management companies which they
17 formed and operated. The Pharmacy Defendants (California Pharmacy
18 Management LLC, Industrial Pharmacy Management LLC, Long Beach
19 Prescription Pharmacy, Coastal Express Pharmacy, Inc. and Meds Management
20 Group, LLC) also participated in five connected schemes to defraud State Fund, as
21 detailed in Section VI, below. Each of these schemes is also supported by a separate
22 spreadsheet of examples, broken down by scheme and by entity, contained on the
23 compact disc lodged with this Amended Complaint. The schemes identified are:

24 (a) Engaging in activity with respect to prescribed medications without
25 having the license required by California law, and concealing that fact from
26 State Fund while submitting and collecting bills.

1 (b) Overbilling State Fund for medications at rates up to ten times the
2 prices at established retail pharmacies, and well above workers' compensation
3 guidelines.

4 (c) Forming or controlling "middleman" companies (just as the Surgical
5 Defendant Enterprise did) to manipulate drug pricing benchmarks and pass on
6 grossly inflated costs to State Fund.

7 (d) Double-billing for prescriptions already billed by other Defendants in
8 the scheme. For example, CPM and IPM duplicated bills for thousands of
9 prescriptions submitted to State Fund, with each entity billing State Fund for
10 the same drugs, claim, and date of service.

11 (e) Rebilling State Fund on prescription claims even after those particular
12 claims had been settled and paid by State Fund.

13 7. As with the Surgical Defendant Enterprise, the Pharmacy Defendant
14 Enterprise concealed this course of conduct for over a decade (in the case of the
15 CPM – its sister and partner corporations were formed by the Individual Defendants
16 later), by falsifying invoices and purchase orders, submitting fraudulent bills, hiding
17 the common ownership of the entities in the enterprise, and obstructing State Fund's
18 attempts to investigate any issues.

19 8. In so doing, each of the Defendants violated, among other laws, the
20 Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961 *et seq.*
21 ("RICO") with their many predicate acts.²

22
23 ² For each entity Defendant, detailed spreadsheets are being provided with
24 specific examples of each scheme engaged in by each Defendant, with claim
25 number, date of service, bill amount and additional descriptions of the fraudulent
26 charges. For Pacific Hospital, the spreadsheets contain representative examples of:
27 (1) spinal hardware misrepresentations; (2) unbundling and upcoding, with a
28 separate spreadsheet for toxicology unbundling; (3) the separate autologous
transfusion billing; and (4) the separate billing of nurses. For Long Beach Pain,
detailed spreadsheets are provided for: (1) unbundling and upcoding; and (2) the

1 **II. THE PARTIES**

2 **A. Plaintiff**

3 9. State Fund is a self-supporting, non-profit public enterprise fund that
4 was established by the California Legislature pursuant to California Insurance Code
5 §§ 11770 *et seq.* State Fund provides workers' compensation insurance to
6 California employers with no financial obligation to the public and is the largest
7 provider of workers' compensation insurance in California.

8 **B. Individual Defendants**

9 10. Drobot Sr., on information and belief, is a resident of Corona Del Mar,
10 CA. His links to, and control of, the relevant entity Defendants as demonstrated by
11 public records, including California Secretary of State records, is set forth in detail
12 in the next section.

13 11. Drobot Jr. is the son of Defendant Drobot Sr. On information and
14 belief, Drobot Jr. is a resident of Orange County, CA. His links to, and control of,
15 the relevant entity Defendants as demonstrated by public records, including
16 California Secretary of State records, is set forth in the next subsection.

17 **C. Entity Defendants and Control Allegations**

18 12. Defendant Healthsmart Pacific, Inc. is, and at all relevant times was, a
19 California corporation, with its principal place of business at 2776 Pacific Avenue,
20 Long Beach, CA 90806. In 1996, Drobot Sr. signed the Certificate of Amended
21 Incorporation of Healthsmart Pacific, Inc., filed with the California Secretary of
22 State on December 24, 1996, as its President, and in 1997, filed a Certificate of
23

24 double-billing for radiology services. For Pharmacy Defendants, the spreadsheets
25 include: (1) billing without a license (CPM and IPM) or authority to collect (MMG);
26 (2) overbilling for medications (all Pharmacy Defendants), including pre-2007 price
27 manipulation (CPM); (3) duplicate billing (between CPM and IPM, Coastal and
28 LBPP, and Coastal and third-party Express Scripts); and (4) billing on paid and/or
settled claims (CPM/IPM and LBPP).

1 Determination for Healthsmart Pacific, Inc., as Chairman of the Board and President
2 (filed with the California Secretary of State on March 18, 1997). In the most recent
3 Statements of Information on file with the California Secretary of State (filed
4 October 6, 2010 and February 21, 2013, with the latter reflecting no change), Drobot
5 Sr. was listed as Chief Executive Officer and a Director of Healthsmart Pacific, Inc.

6 13. Defendant Healthsmart Pacific, Inc. d/b/a Pacific Hospital of Long
7 Beach (hereinafter, along with Healthsmart, "Pacific Hospital") is, and at all
8 relevant times was, a California corporation, and is a for-profit hospital that
9 specializes in surgeries in general, and orthopedic and spinal surgeries in particular,
10 with its principal place of business at 2776 Pacific Avenue, Long Beach, CA 90806.
11 See the above paragraph regarding Drobot Sr.'s control of the Healthsmart entity
12 which, on information and belief, mirrors that of Pacific Hospital. Further, Pacific
13 Hospital filed a corporate disclosure statement in this case, listing Abrazos
14 Healthcare, Inc. as the parent corporation; California Secretary of State records
15 indicate that it is located at 20377 SW Acacia Street, Newport Beach, CA 92660,
16 which are the headquarters for the Pharmacy Defendants described below, with
17 Drobot Sr. as the principal. The disclosure statement also references Mickey
18 Medical, Inc. as the holding company of Abrazos Healthcare, Inc.; California
19 Secretary of State records list Mickey Medical, Inc., as having the same Acacia
20 Street address, with Drobot Sr. as the principal.

21 14. Defendant Long Beach Pain Center Medical Clinic, Inc. ("Long Beach
22 Pain") is, and at all relevant times was, a California corporation. Long Beach Pain,
23 on information and belief, has a physical location at 2760 Pacific Avenue, Long
24 Beach, CA 90806 (the same block as Pacific Hospital), and, on information and
25 belief, is associated with Pacific Hospital in terms of patient referrals, doctor
26 privileges, and industry publications. According to California Secretary of State
27 records, Long Beach Pain headquarters are *also* located at 20377 SW Acacia Street,
28 Newport Beach, CA 92660, the headquarters for the Pharmacy Defendants

1 described below. According to the most recent Statement of Information on file
2 with the California Secretary of State (May 18, 2012), Drobot Sr. is listed as Chief
3 Executive Officer, Secretary and a director of Long Beach Pain. Further, Long
4 Beach Pain has filed a corporate disclosure statement in this Court noting that
5 Pacific Specialty Physician Management, Inc. is its parent corporation, and
6 California Secretary of State records list the same Acacia Street, Newport Beach
7 address and indicate that Drobot Sr. is also the principal of this parent entity.

8 15. Defendant Industrial Pharmacy Management, LLC (“IPM”) is, and at
9 all relevant times was, a California corporation. IPM’s website states that it helps
10 dispense medications to patients in doctor’s offices, and, according to California
11 Secretary of State records, is *also* located at 20377 SW Acacia Street, Newport
12 Beach, CA, although it states that IPM also has a location in Baltimore, Maryland.
13 In the Statement of Information filed with the California Secretary of State on
14 September 7, 2007, Drobot Sr. was listed as the sole manager for IPM. In its May
15 31, 2011 Statement of Information, Drobot Jr. was listed as the sole manager.

16 16. Defendant California Pharmacy Management LLC (“CPM”) underwent
17 a merger in or around 2009 or 2010 and became IPM, on information and belief.
18 Following the merger, CPM was no longer a valid California entity and had no right
19 to conduct business. CPM nonetheless continued to bill State Fund for prescription
20 medications well into 2012. According to California Secretary of State records,
21 CPM is (or was) *also* located at 20377 SW Acacia Street, Newport Beach, CA
22 92660. In the Certificate of Merger on file with the California Secretary of State,
23 dated January 28, 2010 but filed August 17, 2010, Drobot Sr. signed as the manager
24 of both the surviving entity (IPM) *and* the disappearing entity (CPM).

25 17. Defendant Coastal Express Pharmacy, Inc. (“Coastal”) is, and at all
26 relevant times was, a California corporation. According to California Secretary of
27 State records, Coastal’s principal executive office is *also* located at 20377 SW
28 Acacia Street, Newport Beach, CA 92660, with an additional street address of 2632

1 Pacific Avenue in Long Beach. In the most recent Statement of Information with
2 the California Secretary of State (October 29, 2010), Drobot Jr. is listed as the Chief
3 Executive Officer, Chief Financial Officer and a director of Coastal.

4 18. Defendant Long Beach Prescription Pharmacy, Inc. ("LBPP") is, and at
5 all relevant times was, a California corporation. According to California Secretary
6 of State records, LBPP's executive office is *also* located at 20377 SW Acacia Street,
7 Newport Beach, CA 92660, and also has a place of business on Pacific Avenue in
8 Long Beach, CA (near Pacific Hospital). In its most recent Statement of
9 Information filed with the California Secretary of State (December 28, 2011),
10 Drobot Jr. is listed as the Chief Executive Officer, Secretary, and a director.

11 19. Defendant Meds Management Group, LLC ("MMG") is, and at all
12 relevant times was, a California limited liability company. According to California
13 Secretary of State records, MMG is *also* located at 20377 SW Acacia Street,
14 Newport Beach, CA 92660. In MMG's Articles of Incorporation, filed with the
15 California Secretary of State on March 21, 2011, Drobot Jr. is listed as the initial
16 agent for service of process, and in the Statement of Information filed on April 13,
17 2011, Drobot Jr. is listed as the sole manager for MMG.

18 20. All of the entity Defendants together are the "Provider Defendants."

19 **D. DOE Defendants**

20 21. State Fund is unaware of the true names and capacities, whether
21 individual, corporate, associate or otherwise, of those defendants named herein as
22 DOES 1 through 10, inclusive. State Fund sues DOES 1 through 10 by fictitious
23 names. State Fund will seek leave to amend this complaint to show their true names
24 and capacities when the same have been ascertained. Said defendants are sued as
25 principals, and all of the acts performed by them as agents, servants or employees
26 were performed within the scope and course of their authority and employment.
27 State Fund is informed and believes, and thereon alleges, that each of the fictitiously
28

1 named defendants is responsible for the events, harm, and damages as alleged
2 herein.

3 22. State Fund is further informed and believes, and thereon alleges, that
4 each of the defendants was the co-conspirator of each and every other defendant
5 and, in performing the acts herein alleged, was acting within the scope of such
6 conspiracy, and that such actions were reasonably foreseeable to each of the other
7 co-conspirators, and/or were taken with the express or implied consent of each of
8 the other co-defendants.

9 23. The named and DOE defendants are occasionally referred to
10 collectively as “Defendants.”

11 **III. JURISDICTION AND VENUE**

12 24. This Court has subject matter jurisdiction over this action pursuant to
13 28 U.S.C. § 1331 because it arises under 18 U.S.C. § 1961 *et. seq.*, the Racketeering
14 Influenced and Corrupt Organizations Act (“RICO”). This Court has supplemental
15 jurisdiction over State Fund’s state law claims under 28 U.S.C. § 1367(a).

16 25. Venue is proper in the Central District of California under 28 U.S.C.
17 § 1391, because all or almost all Defendants reside in this District, and a substantial
18 portion of the events or omissions giving rise to the claims herein occurred in this
19 District. Venue is proper in the Southern Division because, based on information
20 from the California Secretary of State and other sources, a majority of Defendants
21 reside in this Division, and Plaintiff State Fund has an office in Santa Ana.

22 **IV. GENERAL ALLEGATIONS**

23 **A. Background Facts Regarding State Fund And Its Claims Process**

24 26. State Fund provides workers’ compensation insurance policies to
25 employers, under which medical treatment and compensation benefits are provided
26 to employees who are injured or become ill during the course of employment or due
27 to employment-related injury. In California, every employer is required to carry
28 insurance to cover the cost of occupational injuries and illnesses. This is also true

1 for California offices or branches of multistate or multinational corporations,
2 meaning the system itself has a significant impact on interstate commerce.

3 27. State Fund pays medical providers for medical services provided to
4 covered workers, including spinal implants, other spinal surgeries, and a wide
5 variety of other procedures. State Fund also pays medical providers for prescription
6 drugs supplied to injured workers.

7 28. In order to receive reimbursement from State Fund for Medical
8 Services, providers submit a Health Insurance Claim Form or other types of bills to
9 State Fund. The Health Insurance Claim Form includes, among other things,
10 warning language that any person who knowingly files a claim containing any
11 misrepresentation or any false, incomplete, or misleading information may be guilty
12 of a criminal act punishable under law and may be subject to civil penalties.

13 29. State Fund does not knowingly pay for fraudulent bills, including: (a)
14 bills for office visits or medical services not provided; (b) bills for unnecessary
15 medical services; (c) bills that are the product of a provider's employment of
16 runners, cappers, or steerers to solicit or obtain patients for the medical provider; (d)
17 bills that are "upcoded"; and (e) bills that are "unbundled." *See supra* note 1. State
18 Fund attempts to adhere to all California guidelines and regulations on costs.³

19 30. State Fund is generally required to pay all bills within a relatively short
20 statutory period of time pursuant to the California Labor Code and attendant
21 regulations, or face large penalties, with some exceptions. As such, State Fund has a
22 limited ability to review each bill and corresponding claim prior to paying within the
23 requisite time period. The schemes described in this Amended Complaint are not
24

25 ³ Some medical procedures are governed by an Official Medical Fee Schedule
26 ("OMFS"), pursuant to Title 8, Article 5.5, Sections 9790 *et seq.* of the California
27 Code of Regulations. The OMFS was promulgated by the Administrative Director
28 of the Division of Workers' Compensation to rein in medical costs, and generally
ties provider reimbursement to a multiplier of Medicare's rates for the same service.

1 readily apparent upon the face of the bills, and Defendants have actively sought to
2 conceal their various schemes. This, along with the fact that State Fund is the
3 largest workers' compensation carrier and the sheer volume of bills State Fund
4 processes on a daily basis, makes detection of this fraudulent behavior extremely
5 difficult.

6 31. At all times relevant to the Amended Complaint, medical providers
7 submitted insurance bills to State Fund manually (on paper) through the United
8 States mail or electronically through interstate wire. Representative mailings and/or
9 wire communications for each particular scheme, broken down by entity Defendant,
10 is included on the accompanying disc. For each claim submitted, State Fund would
11 send an explanation of benefits ("EOB") and/or related correspondence to the
12 provider via the United States mail. State Fund also reimbursed providers by
13 sending payment through the United States mail.⁴

14 **B. Background Allegations on Defendants' Operations**

15 32. Pacific Hospital is owned and run by Drobot Sr., who, on information
16 and belief, purchased the hospital in 1997 and shifted its focus to spine care for
17 workers' compensation patients. On information and belief, Pacific Hospital
18 specializes in spinal surgeries, including spinal fusions and spinal implants, and has
19 performed over 5,000 spinal fusions on workers' compensation patients in the last
20 ten years.

21 33. Since 2001, State Fund has paid Pacific Hospital at least \$141 million
22 for services purportedly rendered by Pacific Hospital pursuant to its workers'
23 compensation policies. This includes at least 16,490 bills for services, including
24 spinal surgery and implants.

25 34. State Fund has also paid over \$20 million to the Pharmacy Defendants.

26
27 ⁴ Senate Bill No. 863, effective this year, also provides for a system of
28 electronic billing, using the wires of the United States through internet connections.

1 35. Defendants acted together with a common purpose to obtain more
2 money from State Fund than was rightfully owed. While the Surgical Defendants
3 and Pharmacy Defendants provided somewhat different services to workers'
4 compensation claimants, all Defendants aimed to defraud State Fund by submitting
5 bills well in excess of what the law provides. Both the Surgical Defendant
6 Enterprise and the Pharmacy Defendant Enterprise shared the goal, with each other
7 and with the Defendants within each enterprise, of fraudulently overbilling State
8 Fund under the direction of the Individual Defendants and using the same methods:
9 inflating bills (sometimes through "middleman" or shell companies), double-billing
10 with other entities, and concealing the true cost and nature of the services or
11 medications provided. The Defendants share the same offices, the same addresses,
12 and the same personnel—all directed toward the same exploitation of the workers'
13 compensation process. In a prior case, for example, Drobot Jr. submitted a sworn
14 declaration stating that: "CPM does not employ or pay pharmacy technicians. The
15 pharmacy technicians are obtained through a third-party registry, First Medical
16 Management ("FMM"), owned by Michael Drobot, Sr., my father."⁵

17 36. On information and belief, State Fund is one of the largest victims of
18 Defendants' unlawful behavior. For example, a *qui tam* complaint was unsealed on
19 July 25, 2013,⁶ in Sacramento County Superior Court against a number of
20 defendants, including Healthsmart and Drobot Sr. for violations of the California
21 Insurance Frauds Prevention Act and the California False Claims Act, involving
22 similar and additional aspects of fraud in the spinal implant area. That complaint
23 alleges that State Fund's mission is to provide an available market for workers'
24

25 ⁵ Declaration of Michael Drobot in Support of Special Motion to Strike
26 Complaint ¶ 9, *Zenith Ins. Co. v. CPM*, Los Angeles Superior Court, Case No.
27 BC406917 (Apr. 24, 2009).

28 ⁶ The initial complaint in this case was filed on June 24, 2013.

1 compensation insurance at fair rates, and to serve as “a model for all workers’
2 compensation carriers,” but that State Fund “has been victimized for hundreds of
3 millions of dollars by Defendants.” Complaint ¶ 7, *State of California ex rel. Mark*
4 *Seransie and William Reynolds v. Gardens Regional Hospital Medical Center, Inc.,*
5 *et al.*, Sacramento Superior Court Case No. 34-2012-00125005 (filed May 5, 2012).

6 37. State Fund has been damaged in that it has paid the Provider
7 Defendants for these procedures, medical services, and prescriptions. State Fund
8 would not have paid the Provider Defendants had it known of Defendants’ fraud and
9 other wrongdoing.

10 38. State Fund is informed and believes, and thereon alleges, that the
11 Defendants engaged in the following schemes to defraud, broken out by Defendant,
12 particular scheme, and particular examples of that scheme included on the compact
13 disc lodged with this Amended Complaint. This information is based on State
14 Fund’s review of bills and internal reports, prompted by the recently reported
15 service of federal warrants on Pacific Hospital’s and IPM’s offices in April 2013
16 (Section VII below, “State Fund Uncovers Defendants’ Well-Concealed Fraud”).

17 **V. FRAUDULENT SCHEMES BY THE SURGICAL DEFENDANT**
18 **ENTERPRISE**

19 **A. Fraudulent Scheme re: Spinal Implants/Surgeries (Pacific**
20 **Hospital, International Implants, Individual Defendants)**

21 39. From 1997 to the present, State Fund has received thousands of bills
22 for spinal surgery from Pacific Hospital. The spinal implant/surgery claims Pacific
23 Hospital submitted to State Fund were fraudulent.⁷

25 ⁷ State Fund reserves the right to amend its complaint to add additional claims
26 and increased damages if material is uncovered in discovery or through expert
27 analysis. State Fund continues to investigate the more-than-\$141 million in
28 payments to Pacific Hospital since 2001.

1 40. Before January 1, 2013, providers were entitled to reimbursement
2 provided under the Official Medical Fee Schedule for the cost of the implant. In
3 addition, Labor Code Section 5318 allowed additional reimbursement on top of this
4 “at the documented paid cost, plus 10 percent of the provider’s documented paid
5 cost” capped at \$250.00. In effect, hospitals claimed they were allowed to bill
6 spinal implants at twice the acquisition cost, plus another 10% of the acquisition
7 cost up to \$250. These two regulations combined to form a potential loophole in the
8 law that arguably allowed double-billing for certain surgical implants. The
9 California legislature recently passed a bill modifying and generally reducing the
10 implant payment formula, effective January 1, 2013. Pacific Hospital asserted the
11 right to double payments under this potential loophole but did not stop there.

12 41. Because the reimbursement amount depends on how much the provider
13 paid for the implant, Pacific Hospital and the Individual Defendants sought to
14 defraud State Fund by establishing shell entities and holding them out as
15 manufacturers of spinal implants (the participants in the Pharmacy Defendant
16 Scheme did much the same thing, as described in Section VI.C). The Individual
17 Defendants and Pacific Hospital then arranged to acquire spinal hardware from the
18 shell entities at fraudulently excessive costs. These Defendants knew the fraudulent
19 invoices did not reflect the actual or reasonable cost of the implants, which was
20 significantly lower.

21 42. For example, in or around August of 2007, the Individual Defendants
22 formed a company called International Implants, one of the entities used by
23 Defendants in furtherance of this scheme. According to California Secretary of
24 State Records, International Implants is located at the *same* address as a majority of
25 the other Defendants – 20377 SW Acacia Street in Newport Beach – and Drobot Jr.
26 is listed as its sole manager. The Individual Defendants represented International
27 Implants as a manufacturer of spinal implants. Such a manufacturer must be
28 registered with the United States Food and Drug Administration (“FDA”). State

1 Fund, pursuant to its investigation, discovered that the FDA lists International
2 Implants as a “repackager,” not a manufacturer.

3 43. The scheme centers on inflating the prices of implants used in spinal
4 surgery. Pacific Hospital “orders” various implants from International Implants.
5 International Implants purchases the implants from a third-party manufacturer of
6 implants and then “sells” the implants to Pacific Hospital at a grossly inflated price.
7 Pacific Hospital then doubles the price of the “documented” cost from International
8 Implants and often adds an additional charge (asserting the right to exploit the
9 perceived loophole in the law). Pacific Hospital then bills State Fund the grossly
10 inflated prices, basing the bills on the “invoices” from International Implants.

11 44. These charges are fraudulent because Pacific Hospital actually pays
12 only a small percentage of the prices reflected on International Implant’s invoices.

13 45. To create the illusion that Pacific Hospital actually pays the grossly
14 inflated prices, International Implants transmits to Pacific Hospital invoices listing
15 the fraudulent prices. Pacific Hospital then sends these invoices to State Fund,
16 representing that it had paid the false wholesale invoice amounts. In reality, the
17 price on the invoice is not the actual and reasonable cost of the implant, but is
18 grossly inflated.⁸

19 46. One can devise a conservative estimate of the actual and reasonable
20 value of spinal equipment by comparing how much Pacific Hospital pays other
21 manufacturers—that is, manufacturers not owned by the Individual Defendants—for
22 that equipment. On a few occasions, Pacific Hospital purchased implant equipment
23 directly from SeaSpine, a spinal implant manufacturer. The following chart
24 compares SeaSpine’s purchase order price with International Implant’s invoice price
25

26 ⁸ Indeed, according to many such invoices, the date of delivery of the
27 implanted device is actually after the date of the surgery for which it was allegedly
28 purchased.

1 for the exact same product, and calculates International Implant's markup. This
2 information is taken from International Implants and SeaSpine invoices and
3 purchase orders from 2012, attached as Exhibits 1-3.⁹

| 4 | Prod. ID | Product Description | SeaSpine Price | I.I. Price | Spread | % Markup |
|----|----------|------------------------------|----------------|-------------|-------------|----------|
| 5 | 12-0010 | Malibu Locking Cap | \$95.00 | \$436.00 | \$341.00 | 359% |
| 6 | 13-6540 | Malibu Polyaxial Reduction | \$773.00 | \$2,998.00 | \$2,225.00 | 288% |
| 7 | | Screw 6.5 x 40mm | | | | |
| 8 | 55-3214 | Zuma Implant 32mm x 25mm x | \$3,400.00 | \$17,149.00 | \$13,749.00 | 404% |
| 9 | | 14mm, 8 Deg | | | | |
| 10 | 55-5525 | Zuma Bone Screw 5.5 x 25mm | \$200.00 | \$1,089.00 | \$898.00 | 449% |
| 11 | 55-6012 | Zuma Locking Cover, 12mm | \$200.00 | \$429.00 | \$229.00 | 115% |
| 12 | 55-6014 | Zuma Locking Cover, 14mm | \$200.00 | \$429.00 | \$229.00 | 115% |
| 13 | 55-6016 | Zuma Locking Cover, 16mm | \$200.00 | \$429.00 | \$229.00 | 115% |
| 14 | 57-2508 | Zuma-C Implant 15 x 18 x 8mm | \$2,000.00 | \$6,800.00 | \$4,800.00 | 240% |
| 15 | 57-9208 | Zuma-C 8mm Locking Cap | \$100.00 | \$400.00 | \$300.00 | 300% |
| 16 | 92-0182 | Sonoma 12mm Drill | \$235.00 | \$598.00 | \$363.00 | 154% |

17
18 47. On each of these items, International Implants lists an invoice price that
19 far exceeds what Pacific Hospital pays SeaSpine—which in these examples
20 represents the actual and reasonable cost of the implants.

21 48. By engineering these sham transactions between Pacific Hospital and
22 International Implants, Pacific Hospital and the Individual Defendants reaped
23 substantial profit from the scheme, as described in more detail below.

24
25 ⁹ The estimate is conservative, and in Defendants' favor, because the prices
26 that Pacific Hospital pays SeaSpine exceed the prices that International Implants
27 pays to SeaSpine, as the latter purchases the equipment in bulk, and therefore pays a
28 discounted price per unit.

1 49. The involved Defendants misrepresented that: (a) the costs Pacific
2 Hospital purportedly incurred in purchasing implants from International Implants
3 were the actual and reasonable cost of the implants, when in fact the prices reflected
4 on the invoices were much greater than the prices actually paid to manufacturers; (b)
5 the supplies were ordered by a physician based on medical necessity and the
6 independent medical judgment of the physician, when in fact supplies were being
7 ordered by Pacific Hospital, who influenced the medical decisions of physicians by
8 providing them with kickbacks (see below); and (c) Pacific Hospital and
9 International Implants were independent companies conducting bona fide business
10 transactions, when in fact Individual Defendants own and control both Pacific
11 Hospital and International Implants.

12 50. These Defendants each knew or believed that these statements were
13 false and/or misleading. They made the false and/or misleading statements to
14 induce State Fund and others to grossly overpay for the medical supplies provided.

15 51. Defendants made use of the United States mail and interstate wires in
16 furtherance of their scheme, by sending the bills to State Fund through the United
17 States mail or interstate wires. They also collected their checks from State Fund via
18 the United States mail.

19 52. Exhibit 1 contains documents from Pacific Hospital and International
20 Implants, sent at the Individual Defendants' direction, to commit precisely this type
21 of fraud on State Fund on or shortly after June 27, 2012.

22 a. On or shortly after June 27, 2012, Pacific Hospital submitted a
23 bill to State Fund (Claim #05338334) via the U.S. Postal Service for, among other
24 things, spinal implants purportedly implanted on June 14, 2012. Pacific Hospital
25 billed the spinal implants at \$331,334.00, which Pacific Hospital and other
26 Defendants knew misrepresented the amount of reimbursement to which Pacific
27 Hospital was entitled. State Fund was also provided, via the U.S. Postal Service,
28 with an invoice in support of the \$331,334.00 charge. The invoice came from

1 International Implants, and it lists spinal implant equipment several times more than
2 the reasonable cost and what Pacific Hospital actually pays.

3 b. The invoice lists the following supplies from International
4 Implants, along with the fraudulent prices Pacific Hospital purportedly paid:

| Qty | Product ID | Description | Price Each | Total |
|-----|------------|---|-------------|-------------|
| 12 | 13-6540 | Malibu Polyaxial Reduction Screw 6.5x 40mm | \$2,998.00 | \$35,976.00 |
| 14 | 12-0010 | Malibu Locking Cap | \$436.00 | \$6,104.00 |
| 3 | 55-3214 | Zuma Implant, 23mm x 25mm x 14mm, 8 Deg | \$17,149.00 | \$51,447.00 |
| 10 | 55-5525 | Zuma Bone Screw 5.5 x 25mm | \$1,089.00 | \$10,890.00 |
| 1 | 55-6012 | Zuma Locking Cover, 12mm | \$429.00 | \$429.00 |
| 2 | 55-6014 | Zuma Locking Cover, 14mm | \$429.00 | \$858.00 |

15 c. Pacific Hospital represented the prices above as the actual and
16 reasonable cost of the implants, but the prices Pacific Hospital actually paid to
17 SeaSpine for the exact same products in 2012 shows they were not.

18 d. For example, the invoice from International Implants lists
19 product 13-6540 at \$2,998.00 apiece, while a purchase order from SeaSpine from
20 the same year (when Pacific Hospital purchased the implant directly) lists the same
21 product at \$773.00 apiece. In the transaction in Exhibit 1, Defendants purchased
22 twelve of these devices, purportedly paying \$35,976.00, and billed State Fund twice
23 that amount, \$71,952.00, for the devices. If Defendants had done as they
24 represented, and purchased this product at its actual and reasonable cost (shown by
25 the SeaSpine purchase order), they would have paid only \$9,276.00 for the
26 devices—about eight times less than they billed State Fund.

27 e. As another example, the invoice from International Implants lists
28 product 55-3214 at \$17,149.00 apiece, while a purchase order from SeaSpine lists

1 the exact same product at \$3,400.00 apiece. Defendants purchased three of these
2 devices, purportedly paying \$51,447.00 and billed State Fund twice that amount,
3 \$102,894.00, for the devices. If Defendants had done as they represented, and
4 purchased this product at its actual and reasonable cost, they would have paid only
5 \$10,200.00 for the devices—about ten times less than they billed State Fund.

6 f. As yet another example, the invoice from International Implants
7 lists 55-5525 at \$1,089.00 apiece, while a purchase order from SeaSpine lists the
8 exact same product at \$200.00 apiece. Defendants purchased ten of these devices,
9 purportedly paying \$10,890.00 and billed State Fund twice that amount, \$21,780.00,
10 for the devices. If Defendants had done as they represented, and purchased this
11 product at its actual and reasonable cost, they would have paid only \$2,000.00—ten
12 times less than they billed State Fund.

13 g. The fraudulent invoice prices allowed Pacific Hospital to overbill
14 for items 12-0010, 55-6012, and 55-6014 as well. Nor was the overpricing scheme
15 limited to these six items. On information and belief, the International Implants
16 invoice lists fraudulently high prices for many, if not all, of the items on the
17 invoice—prices much higher than the actual and reasonable price of the item.

18 53. Exhibit 2 contains documents from Pacific Hospital and International
19 Implants, sent at the Individual Defendants' direction, to commit precisely this type
20 of fraud on State Fund on or shortly after February 7, 2012.

21 a. On or shortly after February 7, 2012, Pacific Hospital submitted
22 a bill to State Fund (Claim #05460970) via the U.S. Postal Service for, among other
23 things, spinal implants purportedly implanted on February 2, 2012. Pacific Hospital
24 billed the spinal implants at \$178,457.60, which Pacific Hospital and other
25 Defendants knew misrepresented the amount of reimbursement to which Pacific
26 Hospital was entitled. State Fund was also provided, via the U.S. Postal Service,
27 with an International Implants invoice in support of the \$178,457.60 spinal implant
28

1 bill. The invoice lists spinal implant equipment several times more than the
2 equipment's reasonable cost and what Pacific Hospital actually pays.

3 b. The invoice lists the following supplies from International
4 Implants, along with the fraudulent prices Pacific Hospital supposedly paid:

| Qty | Product ID | Description | Price Each | Total |
|-----|------------|----------------------------|------------|------------|
| 8 | 12-0010 | Malibu Locking Cap | \$436.00 | \$3,488.00 |
| 8 | 55-5525 | Zuma Bone Screw 5.5 x 25mm | \$1,089.00 | \$8,712.00 |
| 1 | 55-6014 | Zuma Locking Cover, 14mm | \$429.00 | \$429.00 |

5
6
7
8
9
10 c. Pacific Hospital represented the prices above as the actual and
11 reasonable cost of the implants, but the prices Pacific Hospital actually paid to
12 SeaSpine for the same products in the same year shows they were not.

13 d. The invoice from International Implants lists item 12-0010 at
14 \$436.00 apiece, while a purchase order from SeaSpine (from 2012) lists the exact
15 same product at \$95.00 apiece. Defendants purchased eight of these devices,
16 purportedly paying \$3,488.00 and billed State Fund twice that amount, \$6,976.00,
17 for the devices. If Defendants had done as they represented, and purchased this
18 product at its actual and reasonable cost, they would have paid only \$760.00. They
19 billed State Fund almost ten times that amount.

20 e. As another example, the invoice from International Implants lists
21 55-5525 at \$1,089.00 apiece, while a purchase order from SeaSpine lists the exact
22 same product at \$200.00 apiece. Defendants purchased eight of these devices,
23 purportedly paying \$8,712.00 and apparently billed State Fund twice that amount,
24 \$17,424.00, for the devices. If Defendants had done as they represented, and
25 purchased this product at its actual and reasonable cost, they would have paid only
26 \$1,600.00. They billed State Fund more than ten times that amount.

1 f. Nor was the overpricing scheme limited to these two items. On
2 information and belief, the International Implants invoice lists fraudulently high
3 prices for many, if not all, of the items on the invoice—prices much higher than the
4 actual and reasonable price of the item.

5 54. Exhibit 3 contains documents from Pacific Hospital and International
6 Implants, sent at the Individual Defendants' direction, to commit precisely this type
7 of fraud on State Fund on or shortly after July 14, 2012.

8 a. On or shortly after July 14, 2012, Pacific Hospital submitted a
9 bill to State Fund (Claim #05014272) via the U.S. Postal Service for, among other
10 things, spinal implants purportedly implanted on July 11, 2012. Pacific Hospital
11 billed the spinal implants at \$21,036.00, which Pacific Hospital and other
12 Defendants knew misrepresented the amount of reimbursement to which Pacific
13 Hospital was entitled. State Fund was also provided, via the U.S. Postal Service,
14 with a purchase order in support of the \$21,036.00 spinal implant bill. The
15 International Implants invoice lists spinal implant equipment several times more
16 than the equipment's reasonable cost and what Pacific Hospital actually pays.

17 b. The invoice lists the following supplies from International
18 Implants, along with the fraudulent prices Pacific Hospital purportedly paid:

| Qty | Product ID | Description | Price Each | Total |
|-----|------------|---------------------------|------------|------------|
| 1 | 57-2508 | Zuma-C Implant 15mm x 8mm | \$6,800.00 | \$6,800.00 |
| 1 | 57-9208 | Zuma-C 8mm Locking Cap | \$400.00 | \$400.00 |
| 1 | 92-0182 | Sonoma 12mm Drill | \$598.00 | \$598.00 |

23
24 c. Pacific Hospital represented the prices above as the actual and
25 reasonable cost of the implants, but the prices Pacific Hospital actually paid to
26 SeaSpine for the exact same products in the same year shows these were not the
27 actual prices.

1 d. As one example, the invoice from International Implants lists
2 item 57-2508 at \$6,800.00 apiece, while a purchase order from SeaSpine (for 2012)
3 lists the exact same product at \$2,000.00 apiece. Defendants purchased one of these
4 devices, purportedly paying \$6,800.00 and apparently billing State Fund twice that
5 amount, \$13,600.00, for the device. If Defendants had done as they represented,
6 and purchased this product at its actual and reasonable cost, they would have paid
7 only \$2,000.00. They billed State Fund almost seven times that.

8 e. As another example, the invoice from International Implants lists
9 item 57-9208 at \$400.00 apiece, while a purchase order from SeaSpine (for 2012)
10 lists the exact same product at \$100.00 apiece. Defendants purchased one of these
11 devices, purportedly paying \$400.00 and billing State Fund twice that amount,
12 \$800.00, for the device. If Defendants had done as they represented, and purchased
13 this product at its actual and reasonable cost, they would have paid only \$100.00.
14 They billed State Fund eight times that amount.

15 f. As yet another example, the invoice from International Implants
16 lists 92-0182 at \$598.00 apiece, while a purchase order from SeaSpine (for 2012)
17 lists the exact same product at \$235.00 apiece. Defendants purchased one of these
18 devices, purportedly paying \$598.00 and billing State Fund twice that amount,
19 \$1,196.00, for the device. If Defendants had done as they represented, and
20 purchased this product at its actual and reasonable cost, they would have paid only
21 \$235.00. They billed State Fund more than five times that amount.

22 g. Nor was the overpricing scheme limited to these three items. On
23 information and belief, the International Implants invoice lists fraudulently high
24 prices for many, if not all, of the items on the invoice—prices much higher than the
25 actual and reasonable price of the item.

26 55. Pacific Hospital, the Individual Defendants, and International Implants
27 created and provided such fraudulent invoices to State Fund when Pacific Hospital
28 billed State Fund for spinal implants, including the bills listed in the lodged

1 spreadsheet (“Pacific Hospital – Spinal Hardware”), in order to induce State Fund to
2 overpay for spinal implants. Pacific Hospital, International Implants, and the
3 Individual Defendants caused the fraudulent invoices to be mailed and wired to
4 State Fund. State Fund reasonably relied on the misrepresentations in Pacific
5 Hospital’s bill and on the misrepresentations in purchase order in issuing payment
6 on the bill. As Pacific Hospital, the Individual Defendants, and International
7 Implants expected, payment was delivered via the U.S. Postal Service.

8 56. Based on State Fund’s bill review, International Implants provided
9 around 75% of the spinal implants that Pacific Hospital billed to State Fund since
10 International Implants’ formation in 2007. As Defendants knew and intended,
11 International Implants fraudulently listed excessive prices for its spinal implants.
12 State Fund relied on Defendants’ claims and invoices.

13 57. On information and belief, Pacific Hospital paid, or caused to be paid,
14 fees to physicians for referring patients to Pacific Hospital and certain affiliates.
15 Such referral fees are illegal under California and federal law. Once referred, the
16 matters could be overbilled in the manner set forth above.

17 58. On information and belief, Pacific Hospital paid the illegal referral fees
18 with proceeds from the fraudulently excessive spinal implant and other fees it
19 charged insurers, including State Fund. This illegal scheme allowed Pacific
20 Hospital to acquire additional patients, while further defrauding State Fund.

21 59. On information and belief, the Individual Defendants were responsible
22 for devising the fraudulent scheme, and received and controlled profits from it.
23 State Fund is informed and believes, and thereon alleges that the Individual
24 Defendants conducted periodic meetings with medical professionals, staff, and other
25 employees in order to give direction and oversee the scheme. Drobot Sr. is,
26 according to California Secretary of State records, Chief Executive Officer and a
27 director of Healthsmart d/b/a Pacific Hospital, and Drobot Jr. is the sole manager of
28 International Implants, which is located at the same office as the Pharmacy

1 Defendants under his control. Abrazos Healthcare, Inc., alleged as Pacific
2 Hospital's parent corporation, and Mickey Medical, Inc., also share the same office
3 address and have Drobot Sr. as the principal, according to California Secretary of
4 State records. As documented above, Drobot Sr. and Drobot Jr. have worked
5 together in numerous business ventures, sharing control and contracting
6 arrangements.

7 **B. Fraudulent Scheme to Overbill Services By Unbundling/Upcoding,**
8 **Including Unbundling and Overbilling re: Toxicology Screening**
9 **(Pacific Hospital, Long Beach Pain, and Individual Defendants)**

10 60. As noted, many procedures are governed by an OMFS, pursuant to
11 Title 8, Article 5.5, Sections 9790 *et seq.* of the California Code of Regulations.
12 Where applicable, State Fund generally pays for a particular procedure billed by a
13 provider at the rate authorized by the OMFS and other regulations.

14 61. The Surgical Defendants generated substantial bills by "upcoding"
15 claims and billing double or triple the approved rate for services. The Surgical
16 Defendants represented that higher and more complex services were provided than
17 actually were and represented that codes with higher billing rates were justified,
18 when, in fact, they were not. Both Pacific Hospital and Long Beach Pain overbilled
19 their services through upcoding, and the Individual Defendants, as the owners and
20 operators, supervised the scheme and reaped the profits.

21 62. The Surgical Defendants have also repeatedly submitted bills to State
22 Fund with "unbundled" services. A surgical procedure's rate often "bundles"
23 elements such as surgical gloves, trays, and other equipment, including them in the
24 procedure's cost. Surgical Defendants billed for the surgical procedure while also
25 billing State Fund for the individual elements or pieces of equipment involved in
26 performing the procedure. This practice amounts to double-billing on the bundled
27 elements, and it substantially increases the billed amounts.

1 63. By providing upcoded and unbundled bills to State Fund (through the
2 United States mail and interstate wires, as described above), the Surgical Defendants
3 provided State Fund with fraudulent bills. Defendants knew the upcoded and
4 unbundled charges did not reflect the actual or reasonable cost of the services. By
5 submitting upcoded and unbundled bills, Defendants represented that the services
6 they rendered justified a higher billing than was appropriate.

7 64. When State Fund receives a bill that is upcoded, unbundled, or
8 overbilled, State Fund generally pays the approved rates for that procedure and
9 indicates to the billing provider that if it disagrees with the amount of the payment,
10 to send additional documentation showing that the services rendered were above and
11 beyond what is normally provided for the particular treatment (upon which the rates
12 are based). Despite such requests, the Surgical Defendants typically did not (and do
13 not) submit any additional documentation to justify the excess billing. Instead,
14 Surgical Defendants routinely filed liens against State Fund with the Workers
15 Compensation' Appeals Board ("WCAB") and then sought (and continue to seek) to
16 collect for the balance of the amount billed ("Liens").¹⁰

17 65. Lodged with this Amended Complaint is a spreadsheet documenting
18 hundreds of instances where Pacific Hospital engaged in unbundling and upcoding
19 for individual services (titled "Pacific Hospital – Unbundling and Upcoding"). The
20 spreadsheet contains the claim number, the document mailed or wired, the
21 approximate date it was sent, the billed amount, and an explanation of the issue.

22
23 ¹⁰ State Fund does not assert that the procedure of filing Liens before the
24 WCAB constitutes independently actionable fraud – the fraud is the attempt to
25 collect more for services than the authorized rate. However, the lien process helps
26 to conceal the fraud and puts additional pressure on State Fund to settle such claims
27 quickly, whether or not a proper investigation can take place. Accordingly, State
28 Fund asserts the remedy of rescission of certain settlements for fraudulent claims
involving Liens, or damages if rescission is not available.

1 66. Also lodged with this Amended Complaint is a spreadsheet
2 documenting hundreds of instances where Long Beach Pain engaged in unbundling
3 and upcoding for individual services (titled “Long Beach Pain – Unbundling and
4 Upcoding”). The spreadsheet contains the claim number, the document mailed or
5 wired, the approximate date it was sent, the billed amount, and an explanation of the
6 issue.

7 67. As a particular and discrete example, Pacific Hospital practiced
8 unbundling and upcoding in its bills for urine toxicology services, allegedly
9 rendered at the request of doctors treating workers’ compensation patients.

10 68. In these bills, Pacific Hospital billed State Fund using a batch of CPT
11 codes, including those for a urine drug screen (80101), chromatography (82541),
12 creatinine (82570), molecular diagnostic tests (83896), and opiates (83925). State
13 Fund has identified four separate issues with respect to these bills for toxicology
14 testing, which resemble and relate to many of the other schemes alleged in this
15 Amended Complaint.

16 69. First, CPT code 80101 has been out of usage since January 1, 2011,
17 according to Medicare regulations, but Pacific Hospital continued to use it
18 throughout 2012.

19 70. Second, these toxicology tests – allegedly ordered to monitor usage of
20 prescribed opiates – are performed using simple “dipstick” cups, similar to over-the-
21 counter pregnancy tests which show immediate results on the cup. The non-defunct
22 CPT codes listed above are reserved for “confirmatory” testing, which is more
23 complicated and intensive and usually performed in a laboratory. Pacific Hospital,
24 nevertheless, uses these codes to bill State Fund each time it administers a simple
25 toxicology test—an example of upcoding.

26 71. Third, confirmatory testing for opiates would include the other tests for
27 creatinine, chromatography, and molecular diagnostic tests. By unbundling these
28

1 tests from the opiate test, Pacific Hospital charged more for the test than
2 contemplated by the bundle.

3 72. Fourth, starting in May 2012, Pacific Hospital ceased billing for
4 toxicology directly, apparently in order to submit claim amounts higher than Pacific
5 Hospital's contracts allowed. Pacific Hospital has occasionally agreed, via contracts
6 with networks and insurers, to fee schedules for certain services, including its
7 toxicology reports. Beginning in May 2012, State Fund began receiving bills from a
8 new company called Precision Monitoring Resource (PMR) d/b/a UDT Solutions
9 LLC, who is not a party to these contracts. State Fund received toxicology bills
10 from PMR even though the bills state that the testing was performed at Pacific
11 Hospital. Accordingly, Pacific Hospital is attempting to avoid its lower contract
12 rates for the toxicology bills, resulting in inflated bills and payments. According to
13 PMR's website, the president of PMR is Jennifer Ensminger, who is also listed by
14 various sources as the Chief Executive Officer of Pacific Hospital. According to its
15 website's contact page, PMR shares a physical address with Pacific Hospital (2776
16 Pacific Avenue). By laundering its upcoded and unbundled bills for toxicology
17 services through PMR without informing State Fund, Pacific Hospital inflated
18 further the amounts it billed State Fund.

19 73. Through this scheme, Pacific Hospital, acting by itself or through
20 PMR, has billed and received payments in (at least) the hundreds of thousands of
21 dollars. Lodged with this Amended Complaint is a spreadsheet containing sixty
22 particular examples of the toxicology scheme just described ("Pacific Hospital –
23 Toxicology Overbilling"). This spreadsheet lists upcoded and unbundled bills for
24 toxicology services, with claim numbers, approximate dates of service, and other
25 details, including which entity sent each bill. It includes thirty representative
26 examples of unbundled and upcoded bills sent to State Fund by Pacific Hospital and
27 another thirty sent by PMR. Pacific Hospital and Individual Defendants concocted
28

1 this scheme to mislead State Fund into paying inflated prices for these tests; State
2 Fund reasonably relied on these misrepresentations in making payments.

3 74. On information and belief, the Individual Defendants were responsible
4 for devising the fraudulent scheme, and received and controlled profits from it.
5 State Fund is informed and believes, and thereon alleges that the Individual
6 Defendants conducted periodic meetings with medical professionals, staff, and other
7 employees in order to give direction and oversee the scheme. Drobot Sr. is,
8 according to California Secretary of State records, Chief Executive Officer and a
9 director of Healthsmart d/b/a Pacific Hospital as well as Long Beach Pain. Long
10 Beach Pain is located at the same office as the Pharmacy Defendants controlled by
11 Drobot Jr. Abrazos Healthcare, Inc., alleged as the parent corporation, and Mickey
12 Medical, Inc., also share the same office address and have Drobot Sr. as the
13 principal, according to California Secretary of State records. As documented above,
14 Drobot Sr. and Drobot Jr. have worked together in numerous business ventures,
15 sharing control and contracting arrangements.

16 **C. Fraudulent Scheme re: Nurse Billing (Pacific Hospital and**
17 **Individual Defendants)**

18 75. At Pacific Hospital, a Registered Nurse First Assistant (“RNFA”) is
19 provided during most surgeries. Based on State Fund’s review, Pacific Hospital has
20 a pattern and practice of billing RNFAs as “assistant surgeons,” allowing it to
21 double-bill the services provided by its RNFAs. This is a particular example of
22 “unbundling,” where State Fund is charged for the “bundle” and then again for the
23 separated service.

24 76. California’s Official Medical Fee Schedule (“OMFS”), which is
25 modeled on the federal Medicare system, already accounts for services performed
26 by RNFAs in setting reimbursement rates for inpatient medical services. 8 CCR
27 § 9798.22(b) provides that the “maximum payment for inpatient medical services
28 includes reimbursement for all of the inpatient operating costs specified in Title 42,

1 code of Federal Regulations, Section 412.2(c).” 42 CFR § 412(c) in turn provides
2 that inpatient operating costs include “routine nursing services.” 42 CFR
3 § 413.53(b) defines “routine services” to mean “the regular room, dietary, and
4 nursing services ... and the use of equipment and facilities for which a separate
5 charge is not customarily made.”

6 77. As a result, federal law does not allow providers to bill Medicare for
7 inpatient medical services rendered by an RNFA. Neither does California law allow
8 providers to seek separate reimbursement for inpatient medical services rendered by
9 an RNFA: “Except for physician services, all fees shall be in accordance with the
10 fee-related structure and rules of the relevant Medicare and Medi-Cal payment
11 systems...” Cal. Lab. Code § 5307.1.

12 78. As one example of this type of fraud, on or shortly after November 17,
13 2010, Pacific Hospital sent State Fund claim number 05597226 (date of surgery
14 November 12, 2010), which included a bill of \$11,000.00 for the services of an
15 RNFA, who was listed in the surgical report as an assistant surgeon, even while the
16 report recorded that the individual’s proper position was an RNFA.

17 79. Lodged with this Amended Complaint is a spreadsheet (“Pacific
18 Hospital – RNFA Billing”) with thirty examples of an RNFA—whose services are
19 supposed to be included within the bundled charge for the procedure—billing
20 separately from Pacific Hospital while still using Pacific Hospital’s tax
21 identification number. In each bill, Pacific Hospital misrepresented that it was
22 entitled to payment for purported services rendered by an RNFA when such cost,
23 under the OMFS, was included in the bundled rate for the procedure. Defendants
24 made the false and misleading statements to induce State Fund to overpay for the
25 medical procedures purportedly provided.

26 80. Pacific Hospital and Individual Defendants thus misrepresented the
27 services provided and their right to collect these additional payments, in addition to
28 reimbursement for inpatient medical services, for the services of an RNFA. Pacific

1 Hospital and Individual Defendants made these misrepresentations in furtherance of
2 their scheme to double-bill and overbill State Fund for the services of an RNFA.
3 State Fund reasonably relied on the misrepresentations in Pacific Hospital's bills in
4 issuing payment on the admission and RNFA bills. As Pacific Hospital and the
5 Individual Defendants expected, payment was delivered via the U.S. Postal Service.

6 81. On information and belief, the Individual Defendants were responsible
7 for devising the fraudulent scheme, and received and controlled profits from it.
8 State Fund is informed and believes, and thereon alleges that the Individual
9 Defendants gave direction and oversaw the fraudulent overbilling scheme, given
10 their control of Pacific Hospital and related entities as specified above.

11 **D. Fraudulent Scheme re: Autologous Transfusion Billing (Pacific**
12 **Hospital and Individual Defendants)**

13 82. During some surgeries, autologous blood transfusion technologies are
14 used to save the patient's blood. The machines (one brand of which goes by the
15 name "Cellsaver") are often provided by a third party during surgeries. The use of
16 this technology is, according to the standard procedures (including Medicare
17 procedures), bundled as a part of inpatient admission.

18 83. Pacific Hospital, however, has engaged in an apparent practice of not
19 paying the third-party provider (often Cardiovascular Plus). This most often leads
20 to the third-party provider billing the cost directly to State Fund, effectively
21 unbundling this particular charge that should be included in Pacific Hospital's
22 inpatient admission charge.

23 84. This particular instance of unbundling happens with Pacific Hospital
24 admissions. Lodged with the Amended Complaint is a spreadsheet with over thirty
25 examples of a separate invoice coming from a third-party provider for autologous
26 blood transfusion technologies, when the service should have been included in the
27 Pacific Hospital bundled admission charge (titled "Pacific Hospital – Autologous
28 Transfusions").

1 85. Pacific Hospital and Individual Defendants misrepresented the services
2 provided and their right to collect these additional payments (in addition to
3 reimbursement for inpatient medical services) for autologous blood transfusion
4 services. Pacific Hospital and Individual Defendants made these misrepresentations
5 in furtherance of their scheme to double-bill and overbill State Fund for these
6 services. State Fund reasonably relied on the misrepresentations in Pacific
7 Hospital's claim and on the misrepresentations in purchase order in issuing payment
8 on the admission and third-party bills. As Pacific Hospital and the Individual
9 Defendants expected, payment was delivered via the U.S. Postal Service.

10 86. On information and belief, the Individual Defendants were responsible
11 for devising the fraudulent scheme, and received and controlled profits from it.
12 State Fund is informed and believes, and thereon alleges that the Individual
13 Defendants gave direction and oversaw the fraudulent overbilling scheme, given
14 their control of Pacific Hospital and related entities as specified above.

15 **E. Fraudulent Scheme re: Duplicate Radiology Billing (Long Beach**
16 **Pain and Individual Defendants)**

17 87. State Fund's review uncovered that Long Beach Pain uses outside
18 radiology services on numerous occasions, often on claimants involving Pacific
19 Hospital as well. These services are generally billed to State Fund by the outside
20 vendor, yet Long Beach Pain bills State Fund for them as well. For example, for a
21 number of services provided by Saddleback Portable X-Ray ("Saddleback") for
22 spinal X-Rays, Long Beach Pain billed for the same technical component as
23 Saddleback, resulting in duplicate billing. Radiology services, under the physician
24 OMFS, can be split up into technical and professional (physician) components, or
25 billed globally. Long Beach Pain splits up the components and bills State Fund for
26 both, while the owner of the equipment (Saddleback) also bills for the technical
27 component. While the "unbundling" here is allowed by the regulations, the double-
28 billing, of course, is not. Because these billings are submitted by two wholly

1 different entities, it is very difficult for State Fund to catch this duplication without a
2 searching and time-intensive review.

3 88. As specific examples, same-service bills were received from Long
4 Beach Pain and Saddleback on State Fund Claim Number 01341571 (date of service
5 July 15, 2011) and Claim Number 199038 (date of service June 3, 2011). This
6 pattern has continued since at least 2007, and Long Beach Pain continues to bill for
7 services rendered by a third-party provider and paid to that provider. Lodged with
8 this Amended Complaint is a spreadsheet of thirty such examples (“Long Beach
9 Pain – Duplicate Radiology Billing”) with separate claim numbers, CPT codes, and
10 dates of service.

11 89. Long Beach Pain and Individual Defendants knowingly misrepresented
12 their right to collect these additional payments. Long Beach Pain and Individual
13 Defendants knew that the third-party providers directly billed State Fund—not Long
14 Beach Pain—for their radiology services, yet Defendants billed State Fund for those
15 same services, claiming “reimbursement” for services they neither provided nor paid
16 for. Long Beach Pain and Individual Defendants made these misrepresentations in
17 furtherance of their scheme to double-bill and overbill State Fund for these services.
18 State Fund reasonably relied on the misrepresentations in Long Beach Pain’s bills in
19 accepting, processing, and paying them in full or in part. As Long Beach Pain and
20 the Individual Defendants expected, payment was delivered via the U.S. Postal
21 Service.

22 90. On information and belief, the Individual Defendants were responsible
23 for devising the fraudulent scheme, and received and controlled profits from it.
24 State Fund is informed and believes, and thereon alleges that the Individual
25 Defendants conducted periodic meetings with medical professionals, staff, and other
26 employees in order to give direction and oversee the scheme. Drobot Sr. is,
27 according to California Secretary of State records, Chief Executive Officer and a
28 director of Healthsmart d/b/a Pacific Hospital as well as Long Beach Pain. Long

1 Beach Pain is located at the same office as the Pharmacy Defendants controlled by
2 Drobot Jr. The alleged parent of Long Beach Pain, Pacific Specialty Physician
3 Management, Inc., shares the same office address and Drobot Sr. is the principal,
4 according to California Secretary of State records. As documented above, Drobot
5 Sr. and Drobot Jr. have worked together in numerous business ventures, sharing
6 control and contracting arrangements.

7 **VI. FRAUDULENT SCHEMES BY THE PHARMACY DEFENDANT**
8 **ENTERPRISE**

9 91. The Surgery Defendant Enterprise shares much in common with the
10 Pharmacy Defendant Enterprise, including the Individual Defendants as operators,
11 owners, officers and directors; offices; and the same methods of defrauding State
12 Fund, except with medications as opposed to surgical procedures. The five schemes
13 below are all closely related to the Surgery Defendants' schemes, but are broken out
14 separately because they are based on prescription medications and some contain
15 unique elements.

16 **A. Lack of Licenses (CPM, IPM, MMG, and Individual Defendants)**

17 92. After a drug is manufactured, it generally passes through several
18 intermediaries before reaching the patient. Manufacturers sell mostly to
19 wholesalers, who then resell the drugs to other purchasers. Some wholesalers are
20 known as "repackagers" because they buy pharmaceuticals in large quantities, sort
21 them by customer needs, and disperse them to retailers in usable quantities.

22 93. Retailers purchase the drugs from a wholesaler/repackager and
23 dispense them to patients. Retailers mostly come in two types: (a) retail pharmacies
24 (including national chain pharmacies, independent pharmacies, supermarket chains,
25 and mail order pharmacies), and (b) physicians who dispense drugs in their office.

26 94. CPM, and later IPM, acted as "brokers" for the acquisition of
27 pharmaceuticals by physicians. CPM and IPM also stored and/or delivered
28 pharmaceuticals for the benefit of its physician customers. Accordingly, CPM and

1 IPM acted as a pharmaceutical "wholesaler" under California Bus. & Prof. Code
2 § 4043, meaning that under California Bus. & Prof. Code § 4160, CPM required a
3 license from the California Board of Pharmacy in order to operate. As the
4 California Board of Pharmacy makes clear on its website: "California law requires
5 that to practice pharmacy in California you must have a current, active registration
6 issued by the board."

7 95. CPM and IPM have been hired by medical groups throughout the
8 country to "manage" dispensing programs. For example, the medical group
9 OrthoIndy in Indiana hired IPM "to manage the dispensing program," noting that
10 IPM "has already been operating in Indiana for five years." *Inside OI*, vol. 5, issue
11 3 (3d Quarter 2010), at 12 (the five-year period may be referring to operations of
12 CPM). OrthoIndy confirmed that IPM works with the other Pharmacy Defendants
13 to make sure patients receive medications. In response to a "frequently asked
14 question" about getting prescriptions to a patient far from an OrthoIndy office, it
15 states: "We can overnight the patient their medications direct to their doorstep using
16 the [Defendant] Long Beach Prescription Pharmacy." *Id.*

17 96. Nonetheless, CPM has never been licensed by the California Board of
18 Pharmacy. According to California state public records, after a 2005 inspection of
19 CPM, the California Board of Pharmacy on October 28, 2005 ordered CPM to cease
20 and desist operations so long as CPM did not have a license. In response, CPM
21 assured the California Board of Pharmacy that it had ceased operations and had
22 transferred its contracts to IPM. CPM also stated that it intended to operate "as a
23 broker, the same as IPM," and thus was applying for a wholesale license.

24 97. In a letter to the California Board of Pharmacy dated December 6,
25 2005, CPM represented that "all [its] operations ceased and all contracts were
26 assigned to IPM." Despite this representation to the Pharmacy Board, CPM never
27 ceased operation—indeed, it billed State Fund for over 7000 prescriptions from
28

1 October 28, 2005 through the end of 2005 alone. No license was *ever* issued to
2 CPM, yet CPM continued its operations, including billing State Fund, through 2012.

3 98. Lodged with the Amended Complaint is a representative listing of bills
4 CPM submitted to State Fund for medications (“CPM – Billing Without License”).
5 It was not licensed when it submitted these bills. As described below, not only was
6 CPM unlicensed, but it also over-billed common medications (Sections VI.B and
7 VI.C) and double-billed with other pharmacies (Section VI.D), including repeated
8 billings on claims that had been paid or settled (Section VI.E).

9 99. IPM's wholesale license expired on September 1, 2012, according to
10 California state public records. IPM, however, continued to bill State Fund for
11 pharmaceuticals provided after that date. Lodged with the Amended Complaint is a
12 representative listing of bills IPM submitted to State Fund for medications (“IPM –
13 Billing Without License”). These bills were submitted to State Fund after IPM’s
14 license lapsed. IPM also over-billed common medications (Section VI.B), and
15 double-billed with other pharmacies (Section VI.D), including repeated billings on
16 claims that had been paid or settled (Section VI.E).

17 100. According to California state public records, MMG, like CPM, never
18 had a license either. MMG has indicated that it was attempting to collect bills for
19 other third party pharmacies or providers, using different tax identification numbers,
20 but did not provide State Fund with any authority under which it could so act.
21 Lodged with the Amended Complaint is a representative listing of bills MMG
22 submitted to State Fund for medications (“MMG – Billing Without License”). It
23 was not licensed when it submitted these bills to State Fund. As described below,
24 not only was MMG unlicensed, but it also over-billed common and easily available
25 medications (Section VI.B).

26 101. CPM, IPM, and MMG misrepresented the services provided and their
27 right to collect payments, either for their entire existence or during significant
28 periods. Lacking the required license and/or authority, these Defendants

1 misrepresented their right to collect in furtherance of their scheme to overbill State
2 Fund for prescriptions. State Fund reasonably relied on the misrepresentations in
3 receiving, processing, and paying or settling the invoices and bills from these
4 Defendants. As CPM, IPM, and MMG and the Individual Defendants expected, and
5 as detailed on the lodged spreadsheets, each Defendant requested payment from
6 State Fund through the United States mail and/or interstate wires, and payments
7 were delivered via the United States mail or wires.

8 102. On information and belief, the Individual Defendants were responsible
9 for devising the fraudulent scheme to bill without license or authority, and received
10 and controlled profits from it. State Fund is informed and believes, and thereon
11 alleges that the Individual Defendants gave direction and oversaw the fraudulent
12 scheme, given their control of the Pharmacy Defendants and related entities as
13 specified above. All the Pharmacy Defendants share the same address, and involved
14 the Individual Defendants in their ownership and management structure.

15 **B. Overbilling for Common Medications (Pharmacy Defendants and**
16 **Individual Defendants)**

17 103. The Pharmacy Defendants engaged in an overbilling scheme against
18 State Fund, similar to that of the Surgical Defendants, only with medications.
19 Indeed, just as with the Surgical Defendants, the Individual Defendants operated a
20 wholesaler-type entity (like International Implants) to drive up the costs it would
21 then pass along to State Fund. From 2002 to the present, the Pharmacy Defendants
22 have billed over half a million prescription drugs to State Fund. State Fund has paid
23 out well over \$20 million to these Defendants based on these bills.

24 104. According to State Fund's investigation, State Fund was overbilled by
25 the Pharmacy Defendants (IPM/CPM, Coastal, LBPP, and MMG) for drugs and
26 compounds such as gabaketoprofen, capsaicin, omeprazole, and glucosamine
27 chondroitin, often related to claimants treated at Pacific Hospital.

28

1 **1. Background on Drug Pricing**

2 105. All drugs intended for retail sale are identified by an eleven-digit
3 National Drug Code (“NDC”) that is listed with the FDA. The NDC is used to
4 identify the drug delivered to the patient. The first five digits of the NDC identify
5 the company that manufactured and/or packaged the drug, the middle four digits
6 identify the drug ingredient and dosage, and the last two digits identify package size.

7 106. Once a drug gets repackaged by a repackager it gets assigned a new
8 NDC. The first five NDC digits are changed to correspond to the repackager. Thus,
9 when a repackager sells a drug to a retailer and that drug gets dispensed to a patient,
10 the reported NDC identifies the repackager, not the manufacturer.

11 107. Each NDC has associated with it pricing benchmarks reported by the
12 manufacturer or repackager that are published in commercial publications. The two
13 benchmarks relevant to this action are the wholesale acquisition cost (“WAC”) and
14 average wholesale price (“AWP”).

15 108. A drug’s wholesale acquisition cost (“WAC”) is the baseline price at
16 which the drug’s manufacturer sells the drug to wholesalers/repackagers. While
17 WAC may not represent a wholesaler’s actual acquisition cost (as wholesalers may
18 obtain modest discounts off the WAC), it is the baseline price at which the
19 manufacturer sells the drug to wholesalers. Due to a competitive market, drug
20 wholesaler margins on their sales to retailers tend to be thin. As a result, the WAC
21 serves as the *de facto* baseline price for two different transactions: (1) the price a
22 wholesaler pays the manufacturer to acquire the drug, and (2) the price a retailer
23 pays a wholesaler to acquire the drug.

24 109. A drug’s average wholesale price or “AWP” is the nominal price at
25 which wholesalers sell that drug to retailers, including pharmacies and physicians
26 who operate in-office dispensaries. Historically, a drug’s AWP is set directly or
27 indirectly by its manufacturer. The *Red Book*, a trade publication that publishes
28 AWP’s and other data for thousands of drugs, explains that “[w]hen the manufacturer

1 does not provide an AWP or markup formula from which AWP can be calculated,
2 the AWP will be calculated by applying a standard 20% markup over the
3 manufacturer supplied WAC.” A repackager is also free to report its own AWP for
4 any drugs it repackages. Since each NDC comes with its own AWP, any firm that
5 repackages can set both a new NDC and a new AWP.

6 110. AWP is important because it is used as a baseline for reimbursement by
7 end payors, including State Fund, to retailers for drugs provided to patients. This
8 results in a system where the amount retailers pay wholesalers for drugs is pegged to
9 the drug’s WAC, but the amount retailers get paid (*i.e.*, receive in reimbursement) is
10 pegged to the drug’s AWP. The amount by which a drug’s AWP exceeds its WAC
11 creates a “spread” between the actual cost of the drug to the retailer and the
12 reimbursement paid to the retailer by an insurer.

13 2. Defendants’ Scheme

14 111. Accordingly, pharmacies and repackagers can increase profits by
15 increasing the “spread.” Given the proliferation of NDC codes and generic
16 medications, it becomes difficult to track the actual prescription and the actual price.

17 112. In this case, the Pharmacy Defendants engaged in a massive
18 overbilling scheme whereby they billed up to ten times the price of basic-over-the-
19 counter medication. Excessive amounts were charged for tablets, and occasionally,
20 the same provider billed the same prescription twice on the same day. For example,
21 IPM consistently billed \$3.50 for 20 mg of omeprazole (an antacid) per tablet.
22 Omeprazole is available, over the counter, for approximately \$0.40 per tablet.

23 113. As with medical procedures and the Surgical Defendants, State Fund
24 indicates to the billing provider that if it disagrees with the amount of the payment
25 for prescriptions, it should send additional documentation in support of the claimed
26 amount. Despite such requests, the Pharmacy Defendants typically did not (and do
27 not) submit any additional documentation to justify the excess billing. Instead, the
28

1 Pharmacy Defendants routinely send additional bills to State Fund and take other
2 actions to collect additional amounts, as detailed below.

3 114. For each of the five Pharmacy Defendants, State Fund is lodging a
4 spreadsheet specifying particular examples of medication overbilling, complete with
5 claim numbers, dates of mailing or wiring, amounts, and descriptions (“CPM –
6 Overbilling,” “IPM – Overbilling,” “LBPP – Overbilling,” “MMG – Overbilling,”
7 and “Coastal – Overbilling”).

8 115. CPM and IPM have billed for compound medications as well, which
9 are generally topical creams that contain more than one drug in the ingredients.
10 CPM consistently billed the entire costs of these medications based on the highest-
11 priced drug in the combination, even when that drug represents the smallest
12 percentage (for example, 10% or less) of the total ingredients. A spreadsheet of
13 examples of this misconduct is being lodged (“CPM – Overbilling Compounds”).

14 116. State Fund reasonably relied on the Pharmacy Defendants’ fraudulent
15 bills and invoices in paying for the services and prescriptions. Based on State
16 Fund’s review of billing runs and particular bills, the bills submitted by the
17 Pharmacy Defendants contained false statements, primarily that the alleged cost of
18 prescriptions provided to covered workers was the actual or reasonable cost of those
19 pharmaceuticals. On information and belief, each Defendant in the Pharmacy
20 Defendant Enterprise knew that these bills contained false statements, which were
21 made to induce State Fund to grossly overpay for the prescriptions provided.

22 117. On information and belief, the Individual Defendants were responsible
23 for devising the fraudulent scheme, and received and controlled profits from it.
24 State Fund is informed and believes, and thereon alleges that the Individual
25 Defendants gave direction and oversaw the fraudulent overbilling scheme, given
26 their control of the Pharmacy Defendants and related entities as specified above. All
27 the Pharmacy Defendants share the same address, and involve the Individual
28 Defendants in their ownership and management structure.

1 **C. Overbilling Through Fraudulent Inflation of Drug Pricing**
2 **Benchmarks (2001-2007) (CPM and Individual Defendants)**

3 118. A more particular kind of overbilling scheme was carried out by CPM
4 (now IPM) and the Individual Defendants from 2001 to 2007, in an attempt to
5 exploit the then-existing regulatory structure which, like the spinal implant structure,
6 often based charges on middleman charges.

7 119. From 2001 to 2007, the “spread” between a drug’s AWP and WAC had
8 a predictable standard dictated by industry custom. For most drugs, the market
9 understood and expected a spread of about 20%. For example, a particular NDC
10 might have a published WAC (*e.g.*, \$100 for a 100 count bottle) and a published
11 AWP typically 1.20 times its WAC (*e.g.*, \$120). A retailer who bought this drug at
12 WAC and sold it at AWP would pocket the \$20—the spread. The standard spread
13 thus allowed retailers a 20% return on each drug they dispense (and sometimes
14 more).¹¹

15 **1. Defendants’ Scheme**

16 120. CPM (now IPM) and the Individual Defendants conducted a complex
17 scheme where they acquired or partnered with repackagers, in order to engineer
18 spreads over 600% by having the repackagers report wildly inflated AWPs.
19 Defendants and the repackagers they conspired with knew these inflated AWPs
20 were nowhere near the “average wholesale price” paid by retailers, nor were they
21 remotely tethered to the drugs’ WACs. Once these inflated AWPs were published,
22 Defendants billed State Fund and others based on these fraudulent AWPs, allowing
23 the Defendants to reap returns in excess of 600% per transaction.

24 _____
25 ¹¹ A retailer who pays exactly WAC (*e.g.*, \$100) and bills exactly AWP (*e.g.*,
26 \$120) would see a 20% profit. But retailers often pay *below* WAC (due to discounts
27 on the WAC from the manufacturer to wholesaler, passed on to the retailer). And
28 retailers often bill *above* AWP—until 2007, California allowed retailers to bill
generic drugs at 1.4 times AWP.

1 121. For drugs prescribed before March 2007, the amount a retailer could
2 charge for drugs depended on whether its NDC was listed in the Medi-Cal fee
3 schedule. For NDCs not listed in the Medi-Cal fee schedule, California law
4 authorized payment for generic drugs at 1.4 times the drug's AWP; brand name
5 drugs were paid at 1.1 times the drug's AWP.

6 122. Because State Fund and other workers' compensation insurers were
7 required by law to reimburse retailers based on AWP for drugs whose NDC was not
8 listed in the Medi-Cal fee schedule, State Fund relied on AWP data published in
9 commercial publications such as the *Red Book*. This reliance was well known to the
10 Defendants, who, on numerous occasions, actively induced State Fund and others to
11 rely on the *Red Book*'s published AWPs. When State Fund denied payment on one
12 of IPM's many excessive bills, CPM often responded with data taken from the *Red*
13 *Book* showing the relevant AWP (which State Fund later discovered during its
14 investigation was fraudulently inflated).

15 123. Defendants conducted a scheme in which the repackagers under their
16 control vastly overstated the AWPs of many drugs in the data they reported to *Red*
17 *Book* and other drug pricing publications. After the inflated AWPs were published,
18 the involved Defendants would continue to pay the same price to acquire their
19 drugs, but they would now charge State Fund much more, claiming that
20 reimbursement was pegged to the published AWPs. This artificial, fraudulent
21 inflation of reported AWP data led to enormous spreads, which, on information and
22 belief, Pharmacy Defendants split with the physicians who prescribed the drugs.

23 124. On information and belief, CPM contracted with physicians regarding
24 the dispensing of drugs. After the physician dispensed a drug, CPM would submit
25 the claim to State Fund. Upon receiving payment, CPM subtracted "the costs of
26
27
28

1 drugs sold and other direct pharmacy costs.” On information and belief, half the
2 resulting profit is paid to the physician, with CPM keeping the other half.¹²

3 125. CPM frequently chose to buy from the repackager DRx. This choice
4 was deliberate. On information and belief, DRx was owned and controlled by
5 Individual Defendants, who also own and control CPM. The Individual Defendants
6 had arranged for DRx to report fraudulently high AWP to the *Red Book*.
7 Defendants would order from DRx drugs with wildly inflated AWP and then bill
8 insurers at 1.4 times these AWP.

9 126. Other times, CPM would choose to buy its drugs from the repackager
10 Aidarex. At the time of the filing of this lawsuit, Aidarex’s website listed IPM
11 (CPM’s successor) as a “partner,” and advertised that IPM “will bill and collect all
12 your prescriptions for your work comp patients and handle your lien cases as well...
13 IPM has the most experienced Coders, Billers and Collectors in the nation. This
14 results in higher reimbursements for your practice with minimal impact to your
15 staff.”¹³ On information and belief, CPM (and later IPM) worked with Aidarex to
16 inflate the AWP of drugs Aidarex sold to CPM. On information and belief, one or
17 both of the Individual Defendants had an ownership interest in Aidarex.

18 127. This scheme to systematically overbill State Fund and other insurers by
19 fraudulently reporting inflated AWP ran from 2001 through March 2007. It began
20 in 2001 with Individual Defendants acquiring DRx for the purpose of manipulating
21 the repackager’s AWP. It effectively ended in March 2007 after California
22 scrapped its AWP-based reimbursement model (the effect is not retroactive,
23

24 ¹² Among other things, these terms are included in “CPM’s standard
25 contract,” attached as an exhibit to the signed Declaration of Michael Drobot in
26 Support of Special Motion to Strike Complaint, *Zenith Ins. Co. v. CPM*, Los
27 Angeles Superior Court, Case No. BC406917 (Apr. 24, 2009).

28 ¹³ This quote is from Google’s cache of the webpage <http://www.aidarex.com/Workers-Comp-Management-Programs.html>, as it appeared on June 17, 2013.

1 however, so claims with dates of service before March 2007 continue to be
2 reimbursed under the AWP-based formula).

3 2. Specific Examples

4 128. After acquiring DRx, the Individual Defendants began to falsify the
5 AWP data that DRx reported to the *Red Book*.

6 129. For instance, DRx reported an AWP of \$185.40 for 60 tablets of 150
7 mg Ranitidine. Yet an invoice from DRx produced in another litigation reveals that
8 DRx actually sold 60 tablets of 150mg Ranitidine to CPM for just \$5.26 during the
9 same period. Assuming DRx sold Ranitidine to CPM at its wholesale acquisition
10 cost, the AWP-WAC spread comes out to 3,424%—many, many times over the
11 standard industry markup. DRx also reported an AWP of \$177.00 for 60 tablets of
12 350mg Carisoprodol. A relatively contemporaneous DRx invoice shows DRx sold
13 the same amount of the same medication for \$8.12, a spread of 2,079%.

14 130. The \$185.40 AWP for DRx’s Ranitidine is over nine times the drug’s
15 federal upper limit (“FUL”) of \$20.47—the maximum amount a state Medicaid
16 program is permitted to reimburse providers for the drug. Before 2007, a drug’s
17 FUL was calculated as 150% of the lowest published AWP for therapeutically
18 equivalent products (*e.g.*, the same generic drug from a different manufacturer or
19 repackager). The same drug has recently been available over the counter for \$0.135
20 per 150mg tablet, amounting to \$8.10 for 60 tablets. IPM billed \$259.56 (1.4 times
21 AWP) for a drug it had purchased for \$5.26 and that retails for \$8.10—a 4,900%
22 markup over CPM’s actual acquisition cost, and a 3,200% markup over the drug’s
23 retail price.

24 131. As an example, on or shortly after October 26, 2006, CPM and the
25 Individual Defendants used the United States mail in furtherance of their scheme to
26 defraud. CPM submitted a bill to State Fund (Claim #0114173) via the U.S. Postal
27 Service for drugs one of its physicians had prescribed and dispensed to a patient at
28

1 Pacific Hospital for \$815.34, which CPM and other Defendants knew
2 misrepresented the amount of reimbursement to which CPM was entitled.

3 132. All the drugs for this particular bill have NDCs beginning with
4 “55045,” indicating that DRx had supplied all the dispensed drugs. Defendants used
5 DRx’s fraudulently reported AWP’s to charge State Fund excessive amounts for the
6 drugs dispensed. In doing so, Defendants knowingly misrepresented DRx’s AWP’s,
7 which it knew to be fraudulently inflated and false. For example, CPM billed State
8 Fund \$255.30 for Carisprodol by multiplying DRx’s fraudulent AWP—\$177.00—
9 by 1.4 and adding a \$7.50 dispensing fee. DRx’s reported AWP for Carisprodol is
10 over 20 times higher than what it actually charges CPM for the drug: \$8.12.

11 133. As another example on this bill, CPM billed State Fund \$267.06 for
12 Ranitidine by multiplying DRx’s fraudulent AWP—\$185.40—by 1.4 and adding a
13 \$7.50 dispensing fee. DRx’s reported AWP for Ranitidine is over 34 times higher
14 than what it actually charges CPM for the drug: \$5.26.

15 134. CPM and the Individual Defendants each knew and intended that the
16 submitted invoice misrepresented DRx’s AWP, and each knew that the reported
17 AWP’s were grossly misleading by industry standards. CPM and the Individual
18 Defendants reported the fraudulent AWP’s in order to induce State Fund to overpay
19 for drugs prescribed by CPM’s physicians. CPM caused the fraudulent bill—based
20 off fraudulent AWP’s—to be mailed by mailing it to State Fund. State Fund
21 reasonably relied on the misrepresentations in Pacific Hospital’s claim and on the
22 misrepresentations in purchase order in issuing payment on the bill of at least
23 \$552.96. As CPM and the Individual Defendants expected, payment was delivered
24 via the U.S. Postal Service.

25 135. CPM thus partnered with repackagers such as DRx and Aidarex to offer
26 physicians drugs at one price, while billing State Fund at much higher prices, using
27 those repackagers’ fraudulently inflated AWP’s. Lodged with this Amended
28 Complaint is a spreadsheet with representative examples of CPM overbilling State

1 Fund based on DRx's and Aidarex's fraudulent AWP ("CPM – AWP
2 Manipulation"). Each example is identified by claim number, date of service, NDC,
3 repackager (DRx or Aidarex), and amount billed.

4 136. On information and belief, the difference between the actual cost of the
5 drug and the reimbursement paid—the spread—is split between CPM and the
6 prescribing physician. As a result of this fee-splitting arrangement, CPM provided
7 the physicians it contracted with significant incentives. For certain drugs (*i.e.*, drugs
8 from DRx and Aidarex), the enormous spread between the drugs' actual cost and
9 their reported AWP gave physicians a significant incentive to prescribe and
10 dispense these drugs, even when cheaper alternatives existed—or even when the
11 prescription is unnecessary—in order to share in the outsized profits. This
12 arrangement closely resembles the kickback arrangement of spinal implants alleged
13 in Section V.A, *supra*.

14 137. CPM and Individual Defendants hid their scheme by using privately
15 held out-of-state repackagers, such as Aidarex and especially DRx, to manipulate
16 AWP for CPM's benefit, and by concealing their ownership interests in these
17 repackagers. Defendants meanwhile wielded DRx's fraudulent AWP to demand
18 excessive payments from insurers.

19 138. Defendants also played a complex corporate shell game to avoid
20 detection and to preserve, for as long as possible, the benefit they reaped from their
21 scheme. On information and belief, DRx was bought in 2001 and turned into a
22 subsidiary of Wellinx, a privately held company based in Missouri and owned in
23 part by Individual Defendants. In 2005, Wellinx changed its name to Purkinje after
24 acquiring the Canadian company. In 2007, according to an SEC filing,
25 Wellinx/Purkinje merged with holding corporation called Essence LLP. On
26 information and belief, after California moved away from an AWP-based
27 reimbursement system in 2007, Individual Defendants sold their interest in Wellinx,
28 and they are no longer affiliated with the company.

1 139. At all relevant times (*i.e.*, 2001-2007), the Individual Defendants
2 owned and controlled CPM, pursuant to California and Secretary of State records.
3 Drobot Jr. was the President and CEO of CPM. As President and CEO, Drobot Jr.
4 managed and operated CPM's affairs. In managing and operating CPM's affairs,
5 Drobot Jr. collaborated with his father Drobot Sr. as well as both Drobot's
6 companies. For example, CPM and Drobot Jr. worked closely with First Medical
7 Management ("FMM"), a company owned by Drobot Sr., in order to exploit a
8 perceived loophole in pharmacy licensing requirements. *See supra* note 5 (Drobot
9 Jr. Declaration describing CPM's operation and links with FMM).

10 140. On information and belief, the Individual Defendants owned and
11 controlled the repackager DRx at all relevant times (*i.e.*, 2001-2007). DRx was
12 acquired in 2001 by a company called Wellinx. Wellinx itself was founded in 1999.
13 A 2007 filing with the U.S. Securities and Exchange Commission ("SEC") lists
14 "Michael Drobot" as a "beneficial owner" of Wellinx, and a 2007 article in the St.
15 Louis Business Journal identifies "Mike Drobot, a California venture investor" as
16 one of Wellinx's early owners.

17 **D. Double-Billing of Prescriptions (CPM, IPM, LBPP, Coastal, and**
18 **Individual Defendants)**

19 141. Pursuant to its investigation, State Fund has uncovered three related
20 schemes in which the Pharmacy Defendants, excepting MMG, double-billed State
21 Fund for the same prescriptions going to the same claimant, but through different
22 processes. Each of these Pharmacy Defendants coordinated with the others to
23 submit bills that another Defendant had already submitted to State Fund. On
24 information and belief (see below), the Pharmacy Defendants identified and shared
25 the information required to double-bill drugs that another Defendant Pharmacy had
26 dispensed and already billed for.

27 142. First, even though CPM was supposedly terminated (in large part for
28 the lack of a license as described in Section VI.A) by the Individual Defendants in

1 or around 2009, it continued to bill State Fund for medications into 2012, often
2 duplicating bills for the same medications that were submitted by IPM. Lodged
3 with this Amended Complaint is a spreadsheet of such double-billing (twenty
4 examples titled “CPM & IPM – Duplicate Billing,” by claim number, date, and CPT
5 or NDC codes). Indeed, on at least one occasion in 2012, an IPM claim was settled,
6 and State Fund was told by a representative of IPM to (and unwittingly did) use
7 CPM’s tax identification number.

8 143. Second, as with IPM and CPM, Coastal, on information and belief, was
9 created by the Individual Defendants to take over the business of LBPP, with the
10 transition occurring in approximately 2011. In 2013, Coastal began to bill for some
11 dates of service that had previously been billed by LBPP. The bills from Coastal
12 have the same date of service, NDC number, and same medication in the same
13 quantities. This double-billing occurred even after State Fund had been fraudulently
14 induced to settle with LBPP on a number of bills on a consolidated basis (see VI.E,
15 below). Lodged with the Amended Complaint is a spreadsheet of Coastal-LBPP
16 duplicative billing examples (“Coastal & LBPP – Duplicate Billing”).

17 144. Third, Coastal billed State Fund for medications – with the same date
18 of service by the same physician for the same pharmaceuticals – that was also billed
19 through Express Scripts, State Fund’s network pharmacy provider, with which
20 Coastal has a contract. Coastal’s directly billed prescriptions are at higher rates than
21 Express Scripts, which is one reason Coastal is required to bill through Express
22 Scripts. Instead, Coastal has engaged in a practice of billing both directly and
23 through Express Scripts for the same medication. Lodged with this Amended
24 Complaint is a spreadsheet of such double-billing (“Coastal & Express – Duplicate
25 Billing”).

26 145. State Fund reasonably relied on the Pharmacy Defendants’ fraudulent
27 bills and invoices for these prescriptions that were double-billed by (a) CPM and
28 IPM; (b) Coastal and LBPP; and (c) Coastal and Express Scripts. Based on State

1 Fund's review of billing runs and particular bills, the bills submitted by these
2 Defendants contained false statements, primarily that the alleged cost of
3 prescriptions provided to covered workers was the actual or reasonable cost of those
4 pharmaceuticals and had not been paid or billed by others. On information and
5 belief, the Pharmacy Defendants made the false statements in the duplicative bills to
6 induce State Fund to grossly overpay for the prescriptions provided.

7 146. On information and belief, the Individual Defendants were responsible
8 for devising the fraudulent scheme, and received and controlled profits from it.
9 State Fund is informed and believes, and thereon alleges that the Individual
10 Defendants conducted periodic meetings with medical professionals, staff, and other
11 employees of the fraudulent providers in order to give direction and oversee the
12 fraudulent overbilling scheme, given their control of the Pharmacy Defendants and
13 related entities as specified above. Indeed, the constant phasing in and out of the
14 Pharmacy Defendants and other entities show the control and intentional direction
15 of this enterprise.

16 **E. Double-Billing of Prescriptions after Global Settlements (CPM,**
17 **IPM, LBPP, and Individual Defendants)**

18 147. State Fund's investigation also led it to review certain settlement
19 agreements State Fund entered with Defendants related to Liens Defendants brought
20 before the WCAB based on their billings to State Fund. State Fund was unaware of
21 Defendants' pattern of racketeering activity when it entered the settlement
22 agreements with the Defendants named therein. Had Defendants disclosed the truth
23 about the Liens and underlying billings, State Fund would have not entered the
24 settlement agreements.

25 148. State Fund was induced by the foregoing fraudulent schemes to enter
26 into settlement agreements with certain of the Defendants on various dates,
27 including but not limited to April 20, 2004, December 8, 2006, September 1, 2009,
28 August 25, 2010, and May 19, 2011 (the "Global Settlements"). Out of an

1 abundance of caution, State Fund will file the Global Settlements under seal
2 according to an appropriate protective order, assuming that the affected Defendants
3 wish to claim that the settlements are confidential. State Fund employees and
4 attorneys were also fraudulently induced to enter into other settlements, in an
5 aggregate amount to be ascertained at trial.

6 149. As noted below, State Fund is seeking rescission of the settlement
7 agreements because of the fraud perpetrated on it in the course of inducing State
8 Fund to settle these claims. The inflated prices and double-billing, as alleged above,
9 were meant to make State Fund pay far larger amounts on these claims than
10 otherwise warranted. Further, as described in Section VI.A, many of the Pharmacy
11 Defendants did not have right, title, or interest to the claims at issue – if State Fund
12 had known that these Defendants did not have right, title, or interest to these bills, it
13 would not have settled with these Defendants.

14 150. Even after inducing State Fund to enter into these settlements,
15 Pharmacy Defendants CPM and LBPP continued to bill State Fund and seek
16 payments for claims that were part of the Global Settlements and supposedly
17 resolved, and in some circumstances, received additional payments. Lodged with
18 the Amended Complaint are two spreadsheets containing examples of CPM (now
19 IPM) and LBPP continuing to bill State Fund for claims that were a part of these
20 Global Settlements after the Global Settlements were concluded. (“CPM – Billing
21 After Settlement” and “LBPP – Billing After Settlement”).

22 **VII. STATE FUND UNCOVERS DEFENDANTS’ WELL-CONCEALED**
23 **FRAUD**

24 151. Defendants have concealed the fraudulent schemes from State Fund by
25 submitting the same or similar bills for procedures and materials over the course of
26 years. Defendants never indicated that they had inflated the costs of procedures or
27 materials in their bills to State Fund. Defendants continued to represent that they
28 were billing State Fund for their actual and reasonable costs. Defendants also did

1 not disclose the connections between and among their related entities, repeatedly
2 discontinuing entities and forming others, while using different tax identification
3 numbers, knowing that State Fund, operating in good faith in the workers'
4 compensation system, could not keep track of morphing entities and schemes.

5 152. The Surgical and Pharmacy Defendants also filed Liens at the WCAB
6 on the basis of their fraudulent bills, similarly contending before the WCAB that the
7 bills were legitimate and that the Defendants were legally entitled to full payment.

8 153. As noted, the workers' compensation system provides for, among other
9 things, accelerated treatment and submission and payment of bills, and in certain
10 circumstances, penalties against an insurer when payment of a bill is delayed. State
11 Fund's limited resources as a public enterprise fund and non-profit state agency,
12 along with the massive number of bills it receives each day, make the early
13 detection of fraud—especially complex schemes involving multiple sophisticated
14 entities—difficult, if not impossible. State Fund had no reasonable opportunity to
15 investigate Defendants' individual bills or the schemes as a whole, and no reason to
16 suspect the extent and systemic nature of the fraud conducted by the Defendants.

17 154. On April 5, 2013, as reported by numerous publications and media
18 outlets, the corporate offices of Pacific Hospital and IPM were served with search
19 warrants by federal and state authorities, including but not limited to the United
20 States Postal Service, the Federal Bureau of Investigation, the Internal Revenue
21 Service, the investigatory arm of the United States Department of Defense, and the
22 California Department of Insurance. The search warrants remain under seal in this
23 Court, so that State Fund still does not know any of their details.

24 155. On the basis of these reports, State Fund has conducted (and continues
25 to refine) an in-depth review of billings from and payments to the Surgical and
26 Pharmacy Defendants, including reviews of ownership structure, control by the
27 Individual Defendants, and patterns of claims. The investigation included the
28 review of thousands of bill runs, thousands of individual bills, and thousands of

1 other records including Secretary of State documents, medical regulations and
2 schedules, and industry and trade publications. The initial complaint in this action
3 was filed on June 24, 2013. Moreover, a *qui tam* action against some of the
4 Defendants (including Pacific Hospital and Drobot Sr.) was unsealed in Sacramento
5 Superior Court in late July 2013.

6 156. Accordingly, State Fund has discovered the various fraudulent schemes
7 described above. These schemes are extensive and go far beyond the traditional
8 relationship of providers and insurers in the workers' compensation system. Given
9 the mass of data, State Fund's investigation is continuing. Defendants' billings
10 demonstrate a systematic course of conduct to defraud State Fund, in violation of the
11 core purpose of the workers' compensation system: the quick and efficient treatment
12 of injured workers. Defendants' fraudulent schemes make health care more
13 expensive and less efficient for workers' compensation claimants, and negatively
14 impact honest providers.

15 157. As a result of the active fraudulent concealment of the conspiracy, State
16 Fund asserts the tolling of the applicable statute of limitations affecting the causes of
17 action by State Fund.

18 **FIRST CAUSE OF ACTION**

19 **(Civil RICO 18 U.S.C. § 1962(c))**

20 **(Against Surgical Defendants and Individual Defendants)**

21 158. State Fund incorporates by reference the allegations in paragraphs 1-90
22 and 151-157 of this Complaint as though fully set forth herein.

23 159. State Fund, Pacific Hospital, International Implants, Long Beach Pain,
24 Drobot Sr., and Drobot Jr. are each "persons" as defined in 18 U.S.C. § 1961(3).

1 **A. Individual Defendants and Surgical Defendants Formed an**
2 **Association-in-Fact Enterprise**

3 160. The Individual Defendants and Surgical Defendants, including their
4 employees and agents, formed an association-in-fact enterprise within the meaning
5 of 18 U.S.C. § 1961(4), the Surgical Defendant Enterprise.

6 161. The Surgical Defendant Enterprise is an ongoing organization
7 consisting of both corporations and individuals that associated for common and
8 shared purposes, including: (a) the fraudulent overbilling of spinal implants; (b) the
9 fraudulent overbilling of medical services; (c) deriving increased profits from the
10 activities of the enterprise; and (d) concealing the fraudulent nature of the
11 enterprise's activities. *See supra* paragraphs 39-90. Lodged with this Amended
12 Complaint are the following spreadsheets containing non-exhaustive, representative
13 samples of predicate acts committed in furtherance of the alleged fraudulent
14 schemes:

- 15 • Pacific Hospital – Spinal Hardware (Section V.A)
- 16 • Pacific Hospital – Unbundling and Upcoding (V.B)
- 17 • Long Beach Pain – Unbundling and Upcoding (V.B)
- 18 • Pacific Hospital – Toxicology Overbilling (V.B)
- 19 • Pacific Hospital – RNFA Billing (V.C)
- 20 • Pacific Hospital – Autologous Transfusions (V.D)
- 21 • Long Beach Pain – Duplicate Radiology Billing (V.E)

22 162. Individual Defendants own and control each of the Surgical
23 Defendants. Specifically, Drobot Sr. owns Pacific Hospital and Long Beach Pain
24 (and is an officer and director of both) while Drobot Jr. owns International Implants.
25 The Individual Defendants coordinated with one another and with the Surgical
26 Defendants to implement and disguise the enterprise's schemes.

27 163. The enterprise functioned as a continuing unit as evidenced by the
28 numerous, ongoing transactions between its members. For example, since 2007

1 International Implants has provided Pacific Hospital with over 75% of Pacific
2 Hospital's spinal implant equipment, with numerous fraudulent invoices being
3 exchanged between the entities and distributed to State Fund.

4 **B. Individual Defendants and Surgical Defendants Each Conducted**
5 **the Enterprise's Affairs**

6 164. Each Surgical Defendant participated in the affairs of the Surgical
7 Defendant Enterprise. For example, International Implants supplied Pacific
8 Hospital with fraudulent invoices, knowing that the invoices would be used in
9 furtherance of the enterprise's scheme to overbill spinal implants. Pacific Hospital
10 participated in the enterprise by submitting fraudulent invoices and bills to State
11 Fund, in furtherance of the enterprise's scheme to overbill spinal implants. Long
12 Beach Pain participated in the affairs of the enterprise by submitting fraudulent bills
13 to State Fund and other insurers, in furtherance of the enterprise's scheme to overbill
14 medical services. *See supra* paragraphs 39-90.

15 165. Each Individual Defendant conducted the affairs of the Surgical
16 Defendant Enterprise by devising the enterprise's schemes and operating the
17 enterprise's members in furtherance of those schemes. Drobot Sr. owns and directs
18 the activities of Pacific Hospital and Long Beach Pain; Drobot Jr. owns and directs
19 International Implants. Working with one another, the Individual Defendants
20 directed their respective entities in carrying out the enterprise's schemes.

21 **C. The Surgical Enterprise Engaged in a Pattern of Racketeering**
22 **Activity, Consisting of Mail and Wire Fraud Violations**

23 166. The Surgical Defendants engaged in a pattern of racketeering activity
24 by committing multiple acts of mail fraud, in violation of 18 U.S.C. § 1341, and
25 wire fraud, in violation of 18 U.S.C. § 1343. Pacific Hospital and Long Beach Pain
26 each caused the fraudulent use of United States mail and interstate wires by sending
27 thousands of fraudulent bills and invoices via United States mail or electronically, in
28 furtherance of the scheme to overbill spinal implants and medical services.

1 International Implants caused the fraudulent use of United States mail by providing
2 Pacific Hospital with fraudulent invoices, intending and foreseeing that the invoices
3 would be mailed in furtherance of the enterprise's scheme to overbill spinal
4 implants.

5 167. Individual Defendants engaged in a pattern of racketeering activity by
6 directing Surgical Defendants to use the United States mail and interstate wires in
7 furtherance of the overbilling schemes, in violation of 18 U.S.C. § 1341 and 18
8 U.S.C. § 1343. In furtherance of the enterprise's overbilling schemes, Individual
9 Defendants arranged for: International Implants to mail and wire fraudulent invoices
10 to Pacific Hospital; Pacific Hospital to mail and wire fraudulent bills and invoices to
11 State Fund; and Long Beach Pain to mail and wire fraudulent bills to State Fund.
12 Individual Defendants made these arrangements intending to defraud State Fund and
13 others by making them overpay for spinal implants and other medical services.

14 168. Defendants also used, and caused the use of, the United States mail and
15 interstate wires to submit other correspondence and documents in furtherance of the
16 Surgical Enterprise, including communications designed to conceal the enterprise's
17 fraudulent activities.

18 **D. The Surgical Defendant Enterprise Affected Interstate Commerce**

19 169. The Surgical Defendant Enterprise could not have been carried out
20 without the United States mail or interstate wires, which were used for the
21 submission of the fraudulent bills, correspondence about them, and payment on
22 them.

23 170. Further, on information and belief, the Surgical Defendant Enterprise's
24 schemes cheated State Fund and other workers' compensation insurers out of
25 hundreds of millions of dollars. The cost of this fraud is passed on, at least in part,
26 to employers who purchase workers' compensation insurance in California. Many
27 employers with California employees have their principal place of business outside
28 California. Many employers are also publicly traded companies, with shareholders

1 spread across the United States. The Surgical Defendant Enterprise's racketeering
2 injured both in-state and out-of state employers and their shareholders, therefore
3 affecting interstate commerce. Provider fraud affects the premiums charged for
4 workers' compensation insurance for these multi-state and international employers.

5 171. The spinal implants were shipped by interstate commerce carriers,
6 including United States mail services. On information and belief, many of the
7 spinal implants were manufactured outside of California and shipped into
8 California.

9 172. As alleged in a prior RICO action brought by CPM against another
10 insurer, the interstate nature of many companies and the mobility of employees
11 means that the business of workers' compensation insurance, even for only
12 California workers, dramatically impacts interstate commerce. This is confirmed by
13 the federal nature of the investigation revealed earlier this year, with participation by
14 the United States Postal Service as well as the Federal Bureau of Investigation.

15 **E. State Fund Relied on the Surgical Defendant Enterprise's**
16 **Misrepresentations and Suffered Financial Injury As a Result**

17 173. In carrying out their fraudulent schemes, the Surgical Defendants and
18 Individual Defendants knew that State Fund would rely on the accuracy of the
19 Defendants' misrepresentations in order to set proper reimbursement amounts.

20 174. The Surgical Defendants and Individual Defendants knew that State
21 Fund reimburses medical providers in accordance with the California Labor Code
22 and regulations promulgated thereunder. Surgical and Individual Defendants were
23 keenly aware of these laws and regulations, and made specific misrepresentations
24 intending and foreseeing that State Fund would rely on these misrepresentations in
25 complying with law, causing Defendants to be overpaid.

26 175. State Fund reasonably relied on Defendant's misrepresentations.
27 Defendants' violations of 18 U.S.C. § 1962(c) directly and proximately caused State
28 Fund substantial injury to business and property by causing State Fund to overpay

1 many millions of dollars in inflated reimbursements for spinal implants and other
2 medical services. State Fund would not have made these overpayments had
3 Defendants not engaged in their pattern of racketeering activity. Defendants'
4 racketeering activity also caused State Fund to incur certain out-of-pocket costs and
5 related expenses that would otherwise not have been incurred.

6 176. As a direct and proximate result of Defendants' unlawful racketeering
7 activity, State Fund suffered damages in an amount to be proven at trial.

8 177. Under the provisions of 18 U.S.C. § 1964(c), Drobot Sr., Drobot Jr.,
9 Pacific Hospital, International Implants, and Long Beach Pain are jointly and
10 severally liable to State Fund for three times the damages that State Fund has
11 suffered, plus the costs of bringing this suit, including reasonable attorneys' fees.

12 178. State Fund is further informed and believes that Defendants have been
13 unjustly enriched by predicate acts and RICO violations, and that this Court should
14 award disgorgement of such unjust enrichment, plus interest, as a further remedy to
15 achieve substantial justice between the parties.

16 **SECOND CAUSE OF ACTION**

17 **(Civil RICO 18 U.S.C. § 1962(c))**

18 **(Against Pharmacy Defendants and Individual Defendants)**

19 179. State Fund incorporates by reference the allegations in paragraphs 1-38
20 and 91-157 of this Complaint as though fully set forth herein.

21 180. State Fund, Drobot Sr., Drobot Jr., and each of the Pharmacy
22 Defendants are "persons" as that term is defined in 18 U.S.C. § 1961(3).

23 **A. Individual Defendants and Pharmacy Defendants Formed an**
24 **Association-in-Fact Enterprise**

25 181. Drobot Sr., Drobot Jr., the Pharmacy Defendants, DRx, and Aidarex,
26 including their employees and agents, formed an association-in-fact enterprise
27 within the meaning of 18 U.S.C. § 1961(4) (the Pharmacy Defendant Enterprise).
28

1 182. The Pharmacy Defendant Enterprise is an ongoing business
2 organization consisting of both corporations and individuals that are and have been
3 associated for common or shared purposes, including: (a) selling drugs and
4 collecting reimbursements without license to do so; (b) overbilling for drugs sold;
5 (c) systematically overbilling insurers using fraudulent AWP's; (d) double-billing
6 with each other for medications paid for by State Fund, including after claims had
7 been resolved; (e) deriving increased profits from the activities of the enterprise; and
8 (f) concealing the fraudulent nature of the enterprise's activities. *See supra*
9 paragraphs 91-150. Lodged with this Amended Complaint are the following
10 spreadsheets containing non-exhaustive, representative samples of predicate acts
11 committed in furtherance of the alleged fraudulent schemes:

- 12 • CPM – Billing Without License (Section VI.A)
- 13 • IPM – Billing Without License (VI.A)
- 14 • MMG – Billing Without License (VI.A)
- 15 • CPM – Overbilling (VI.B)
- 16 • Coastal – Overbilling (VI.B)
- 17 • IPM – Overbilling (VI.B)
- 18 • LBPP – Overbilling (VI.B)
- 19 • MMG – Overbilling (VI.B)
- 20 • CPM – Overbilling Compounds (VI.B)
- 21 • CPM – AWP Manipulation (VI.C)
- 22 • CPM & IPM – Duplicate Billing (VI.D)
- 23 • Coastal & Express – Duplicate Billing (VI.D)
- 24 • Coastal & LBPP – Duplicate Billing (VI.D)
- 25 • CPM – Billing After Settlement (VI.E)
- 26 • LBPP – Billing After Settlement (VI.E)

27 183. Individual Defendants own and control each of the Pharmacy
28 Defendants. Individual Defendants coordinated with one another and with

1 Pharmacy Defendants to implement and disguise the enterprise's schemes. Drobot
2 Jr., who owns and controls the Pharmacy Defendants, coordinated with Drobot Sr.
3 by employing Drobot Sr.'s employees in implementing the enterprise's scheme to
4 sell drugs without the required license. As noted above, CPM replaced IPM,
5 Coastal apparently replaced or took over for LBPP, and IPM used LBPP in its
6 business (for example, delivering prescriptions in the OrthoIndy program).

7 184. Drobot Jr. also coordinated with DRx, owned by Drobot Sr., and likely
8 Aidarex, in implementing the enterprise's scheme of reporting and disseminating
9 fraudulent AWP's and overbilling for drugs. Drobot Jr. and the Pharmacy
10 Defendants further coordinated with Drobot Sr. and DRx in arranging for these
11 drugs to be shipped to physicians and patients. Individual Defendants further
12 coordinated with one another to conceal the enterprise's schemes.

13 185. The enterprise functioned as a continuing unit as evidenced by the
14 numerous, ongoing transactions between its members. For example, from 2001
15 through at least 2007, DRx and Aidarex provided drugs to Pharmacy Defendants
16 and/or the physicians with whom the Pharmacy Defendants contracted. The
17 enterprise's functioning as a continuing unit is further evidenced by Individual
18 Defendants' common ownership and/or control over each of the Pharmacy
19 Defendants and the repackagers with whom they conspired.

20 **B. Individual Defendants and Pharmacy Defendants Each Conducted**
21 **the Affairs of the Enterprise**

22 186. Each Pharmacy Defendant participated in the affairs of the Pharmacy
23 Defendant Enterprise. For example, to conceal the enterprise's fraudulent activities,
24 each Pharmacy Defendant, acting under the direction of the Individual Defendants,
25 implemented practices of overbilling certain medications. Each Pharmacy
26 Defendant also participated in setting fraudulent AWP's and/or billing based on
27 those fraudulent AWP's.

1 187. Both Individual Defendants conducted the affairs of the Pharmacy
2 Enterprise by devising the enterprise's schemes and operating the enterprise's
3 members in furtherance of those schemes. Individual Defendants own and control
4 each of the Pharmacy Defendants. For example, Drobot Jr. is the President and
5 CEO of IPM/CPM; in this capacity, he directed and managed CPM's participation
6 in the Pharmacy Enterprise. Drobot Jr. further conducted the affairs of the
7 Pharmacy Enterprise by entering into contracts with physicians and repackagers
8 (such as DRx) on IPM/CPM's behalf. Drobot Sr. conducted the affairs of the
9 Pharmacy Enterprise by acquiring DRx in order to manipulate its AWP's. *See supra*
10 paragraphs 12-19, 32-38, 125, 127-130, 132-138, and 140.

11 **C. The Pharmacy Defendant Enterprise Engaged in a Pattern of**
12 **Racketeering Activity, Consisting of Mail and Wire Fraud**
13 **Violations**

14 188. Pharmacy Defendants engaged in a pattern of racketeering activity by
15 committing multiple acts of mail fraud, in violation of 18 U.S.C. § 1341, and wire
16 fraud, in violation of 18 U.S.C. § 1343. Each Pharmacy Defendant caused the
17 fraudulent use of United States mail or interstate wires by sending, via United States
18 mail or electronically, bills where it misrepresented its right to reimbursement for
19 drugs it had no right to sell. Each Pharmacy Defendant also caused the fraudulent
20 use of United States mail or interstate wires by sending fraudulently inflated bills;
21 some of these bills contained further misrepresentations in the form of falsified
22 AWP data. Pharmacy Defendants mailed and wired their fraudulent bills intending
23 to defraud State Fund and others, making them overpay for the drugs sold.

24 189. Individual Defendants engaged in a pattern of racketeering activity by
25 directing Pharmacy Defendants and their repackagers to use the United States mail
26 and interstate wires in furtherance of the enterprise's schemes, in violation of 18
27 U.S.C. § 1341 and § 1343. In furtherance of the enterprise's overbilling schemes,
28 Individual Defendants arranged for, among other things: Pharmacy Defendants to

1 misrepresent, via interstate mail and wire, their right to reimbursement for drugs
2 they had no right to sell; to report fraudulent AWP data to *Red Book* and national
3 commercial publications; and Pharmacy Defendants to overbill State Fund via
4 interstate mail and wire. Individual Defendants made these arrangements intending
5 to defraud State Fund and others, making them overpay for the drugs sold.

6 190. On information and belief, Defendants by contract agreed to share
7 certain proceeds from the enterprise's activities with the physicians who prescribed
8 Defendants' drugs. Defendants thus provided physicians with a strong financial
9 incentive to prescribe the Defendants' drugs—an incentive that often counseled
10 against the best interests of the physicians' patients.

11 191. Defendants also used and caused the use of the United States mail and
12 interstate wires to submit other correspondence and documents in furtherance of the
13 Pharmacy Defendant Enterprise, including communications designed to conceal the
14 enterprise's fraudulent activities.

15 **D. The Pharmacy Defendant Enterprise Affected Interstate**
16 **Commerce**

17 192. The Pharmacy Defendant Enterprise could not have been carried out
18 without the United States mail and interstate wires, which were used for the
19 submission of the fraudulent bills, correspondence about them, and payment on
20 them.

21 193. Further, on information and belief, the Pharmacy Defendant
22 Enterprise's schemes cheated State Fund and other workers' compensation insurers
23 out of hundreds of millions of dollars. The cost of this fraud is passed on, at least in
24 part, to employers who purchase workers' compensation insurance in California.
25 Many employers with California employees have their principal place of business
26 outside California. Many employers are also publicly traded companies, with
27 shareholders spread across the United States. The Pharmacy Defendant Enterprise's
28 pattern of racketeering injured both in-state and out-of-state employers and their

1 shareholders, therefore affecting interstate commerce. Provider fraud affects the
2 premiums charged for workers' compensation insurance for these multi-state and
3 international employers and entities.

4 194. As alleged in a prior RICO action brought by CPM against another
5 insurer, the interstate nature of many companies and the travel and transport of
6 employees means that the business of workers' compensation insurance, even for
7 California workers, dramatically impacts interstate commerce. This is confirmed by
8 the federal nature of the investigation revealed earlier this year, with participation by
9 the United States Postal Service as well as the Federal Bureau of Investigation.

10 195. CPM/IPM also partnered with at least one medical group in Indiana,
11 OrthoIndy, and used LBPP to dispense prescription medications to individuals
12 living there. IPM's website also lists an apparent business office in Maryland, and
13 promotes itself as a nationwide manager of prescriptions for physicians.

14 **E. State Fund Relied on the Pharmacy Defendant Enterprise's**
15 **Misrepresentations and Suffered Financial Injury as a Result**

16 196. In carrying out their fraudulent schemes, the Pharmacy Defendants and
17 Individual Defendants knew that State Fund would rely on the accuracy of the
18 Defendants' misrepresentations in order to set proper reimbursement amounts.

19 197. The Pharmacy Defendants and Individual Defendants knew that State
20 Fund reimburses medical providers in accordance with the California Labor Code
21 and regulations promulgated thereunder. Pharmacy and Individual Defendants were
22 aware of these laws and regulations and made specific misrepresentations intending
23 and foreseeing that State Fund would rely on these misrepresentations in order to
24 comply with law, causing Defendants to be overpaid.

25 198. State Fund reasonably relied on Defendants' misrepresentations.
26 Defendants' violations of 18 U.S.C. § 1962(c) directly and proximately caused State
27 Fund substantial injury to business and property by causing State Fund to overpay
28 millions of dollars in inflated reimbursements for the drugs that Pharmacy

1 Defendants illegally sold. State Fund would not have made these payments had
2 Defendants not engaged in their pattern of racketeering activity. Defendants'
3 racketeering activity also caused State Fund to incur out-of-pocket costs and related
4 expenses that would not have otherwise been incurred.

5 199. As a direct and proximate result of Defendants' unlawful racketeering
6 activity, State Fund suffered damages in an amount to be proven at trial.

7 200. Under the provisions of 18 U.S.C. § 1964(c), Drobot Sr., Drobot Jr.,
8 and each of the Pharmacy Defendants are jointly and severally liable to State Fund
9 for three times the damages that State Fund has suffered, plus the costs of bringing
10 this suit, including reasonable attorneys' fees.

11 201. State Fund is further informed and believes that Pharmacy Defendants
12 and Individual Defendants have been unjustly enriched by their RICO violations,
13 and that this Court should award disgorgement of such unjust enrichment, plus
14 interest, as a further remedy to achieve substantial justice between the parties.

15 **THIRD CAUSE OF ACTION**

16 **(Civil RICO Conspiracy 18 U.S.C. § 1962(d))**

17 **(Against Surgical Defendants and Individual Defendants)**

18 202. State Fund incorporates by reference the allegations in paragraphs 1-90,
19 151-157, and 159-178 of this Complaint as though fully set forth herein.

20 **A. Each Defendant Knew of and Agreed to Facilitate the Surgical** 21 **Enterprise's Criminal Purpose**

22 203. Surgical Defendants and Individual Defendants formed an agreement to
23 violate 18 U.S.C. § 1962(c). Each Defendant knew of the Surgical Enterprise's
24 conspiracy to defraud State Fund by overbilling State Fund for spinal implants and
25 other medical procedures while taking active steps to conceal the fraud. Each
26 Defendant agreed to join this conspiracy, and each agreed to commit, facilitate, or
27 participate in a pattern of racketeering activity in furtherance of the conspiracy.
28

1 **B. Each Defendant Committed Predicate Acts In Furtherance of the**
2 **Enterprise's Criminal Purpose**

3 204. During the existence of the conspiracy, each of the Defendants agreed
4 to the commission of multiple predicate acts in furtherance of the conspiracy to
5 overbill State Fund.

6 205. Pacific Hospital agreed to and did commit multiple instances of mail
7 and wire fraud in furtherance of the conspiracy by mailing and wiring fraudulently
8 inflated bills and invoices. International Implants agreed to facilitate Pacific
9 Hospital's pattern of racketeering by supplying Pacific Hospital with fraudulent
10 invoices.

11 206. Long Beach Pain agreed to and did commit multiple instances of mail
12 and wire fraud by mailing and wiring fraudulent bills.

13 207. Individual Defendants agreed to and did commit multiple instances of
14 mail and wire fraud by directing Surgical Defendants to commit the predicate acts
15 above, intending and foreseeing that the acts of mail and wire fraud would follow in
16 the ordinary course of business. Individual Defendants also agreed to and did
17 conduct the enterprise's affairs. Among other things, Individual Defendants
18 conducted the enterprise's affairs by devising its schemes, obtaining profits from
19 them, and meeting with the Surgical Defendants' employees in order to direct the
20 schemes.

21 208. Specific examples of predicate acts committed in furtherance of the
22 conspiracy are provided in paragraphs 39-90 and in the spreadsheets lodged with
23 this Complaint.

24 **C. State Fund Suffered Injury From the Predicate Acts Committed In**
25 **Furtherance of the Enterprise's Criminal Purpose**

26 209. The predicate acts of mail and wire fraud that Defendants agreed to and
27 did commit directly and proximately caused State Fund to suffer substantial injury
28 to its business and property, as alleged in greater detail above.

210. Under the provisions of 18 U.S.C. § 1964(d), Drobot Sr., Drobot Jr., and each of the Surgical Defendants are jointly and severally liable to State Fund for three times the damages that State Fund has suffered, plus the costs of bringing this suit, including reasonable attorneys' fees.

211. State Fund is further informed and believes that Surgical Defendants and Individual Defendants have been unjustly enriched by their RICO violations, and that this Court should award disgorgement of such unjust enrichment, plus interest, as a further remedy to achieve substantial justice between the parties.

FOURTH CAUSE OF ACTION

(Civil RICO Conspiracy 18 U.S.C. § 1962(d))

(Against Pharmacy Defendants and Individual Defendants)

212. State Fund incorporates by reference the allegations in paragraphs 1-38, 91-157, and 180-201 of this Complaint as though fully set forth herein.

A. Each Defendant Knew of and Agreed to Facilitate the Pharmacy Enterprise’s Criminal Purpose

213. Pharmacy Defendants and Individual Defendants formed an agreement to violate 18 U.S.C. § 1962(c). Each Defendant knew of the Pharmacy Enterprise's conspiracy to defraud State Fund by overbilling State Fund for drugs that the enterprise illegally sold while taking active steps to conceal the fraud. Each Defendant agreed to join this conspiracy, and each agreed to commit, facilitate, or participate in a pattern of racketeering activity in furtherance of the conspiracy.

B. Each Defendant Committed Predicate Acts In Furtherance of the Enterprise's Criminal Purpose

214. During the existence of the conspiracy, each of the Defendants agreed to the commission of multiple predicate acts in furtherance of the conspiracy to overbill State Fund.

215. Each of the Pharmacy Defendants agreed to and did mail or wire State Fund bills for drugs it had illegally sold, and had no right to collect on. Each did so

1 with intent to defraud State Fund, in furtherance of the conspiracy. Each of the
2 Pharmacy Defendants also agreed to and did mail or wire State Fund bills with
3 fraudulently inflated drug prices. Each did so with intent to defraud State Fund, in
4 furtherance of the conspiracy.

5 216. Individual Defendants agreed to and did commit multiple instances of
6 mail and wire fraud by directing Pharmacy Defendants to commit the predicate acts
7 above, intending and foreseeing that the acts of mail and wire fraud would follow in
8 the ordinary course of business. Individual Defendants also agreed to and did
9 conduct the enterprise's affairs. Among other things, Individual Defendants
10 conducted the enterprise's affairs by devising its schemes, obtaining profits from the
11 schemes, and conducting meetings with the Pharmacy Defendants' employees in
12 order to direct the schemes.

13 217. Specific examples of predicate acts committed in furtherance of the
14 conspiracy are provided in paragraphs 91-150 and in the spreadsheets lodged with
15 this Complaint.

16 **C. State Fund Suffered Injury From the Predicate Acts Committed In**
17 **Furtherance of the Enterprise's Criminal Purpose**

18 218. The predicate acts of mail and wire fraud that Defendants agreed to and
19 did commit directly and proximately caused State Fund to suffer substantial injury
20 to its business and property, as described in more detail above.

21 219. Under the provisions of 18 U.S.C. § 1964(d), Drobot Sr., Drobot Jr.,
22 and each of the Pharmacy Defendants are jointly and severally liable to State Fund
23 for three times the damages that State Fund has suffered, plus the costs of bringing
24 this suit, including reasonable attorneys' fees.

25 220. State Fund is further informed and believes that Pharmacy Defendants
26 and Individual Defendants have been unjustly enriched by their RICO violations,
27 and that this Court should award disgorgement of such unjust enrichment, plus
28 interest, as a further remedy to achieve substantial justice between the parties.

1 **FIFTH CAUSE OF ACTION**

2 **(Fraud)**

3 **(Against All Defendants)**

4 221. State Fund incorporates by reference the allegations in paragraphs 1-
5 157, 159-178, 180-201, 203-211, and 213-220 of this Complaint as though fully set
6 forth herein.

7 222. As alleged in detail above, each Defendant made material
8 misrepresentations to State Fund, and concealed and/or suppressed material facts
9 from State Fund. Such misrepresentations included false billings for spinal
10 implants, spinal surgeries and other procedures, and medications. Each Defendant
11 also made misrepresentations and concealed facts with the intent that State Fund not
12 discover its fraudulent schemes.

13 223. The misrepresentations and omissions by Defendants were material and
14 were false and misleading, and Defendants knew they were material and were false
15 and misleading at the time they were made, or, at a minimum, Defendants acted
16 with reckless disregard for the truth or falsity of the representations or omissions.

17 224. Defendants misrepresented, concealed and/or suppressed these facts
18 with the intent to deceive and influence the actions of State Fund, including
19 intending to have State Fund pay the fraudulent billings, as well as to stop any
20 investigation of the challenged practices.

21 225. State Fund reasonably and justifiably relied to its detriment on each
22 Defendant's misrepresentations. At the time State Fund acted in reliance on
23 Defendants' misrepresentations, State Fund was unaware of the representations'
24 falsity and of the facts Defendants concealed and suppressed. State Fund would
25 have acted differently if it had known the true facts. In particular, State Fund would
26 not have paid Defendants' fraudulent claims, and State Fund would have contested
27 (or contested further) Defendants' false billings.

1 226. As a direct and proximate result of Defendants' misrepresentations,
2 State Fund suffered damages in an amount to be proven at trial, but in an amount not
3 less than the monies paid to Defendants because of their fraudulent schemes with
4 respect to spinal implants, prescriptions, and overbilling.

5 227. As explained above, State Fund was induced by the foregoing
6 fraudulent schemes to enter into settlement agreements with certain of the
7 Defendants on various dates, including but not limited to the Global Settlements.
8 State Fund's consent to enter into these settlement agreements was obtained by
9 Defendants' fraud, including the misrepresentations articulated above. These
10 misrepresentations were made with the intent to induce State Fund to rely thereon,
11 and State Fund did in fact rely thereon. At the time State Fund entered into the
12 settlement agreements, it was unaware of the true facts and would have acted
13 differently if it had known the true facts. Specifically, State Fund would not have
14 settled these claims if it had known that Defendants engaged in the foregoing
15 misrepresentations.

16 228. Consequently, the settlement agreements constitute void and/or
17 voidable contracts, and State Fund seeks rescission of them (including the return to
18 State Fund of payments plus interest), or if rescission is not available, damages in an
19 amount to be proven at trial.

20 229. In making the above false statements, Defendants acted with a
21 conscious disregard for the rights of State Fund, and thus are guilty of oppression,
22 fraud and malice pursuant to California Civil Code § 3294. State Fund is entitled to
23 recover punitive damages from Defendants in an amount to be proven at trial.

SIXTH CAUSE OF ACTION
(Business & Professions Code § 17200)
(Against All Defendants)

230. State Fund incorporates by reference the allegations in paragraphs 1-157, 159-178, 180-201, 203-211, 213-220, and 222-229 of this Complaint as though fully set forth herein.

231. Defendants' schemes involving fraudulent misrepresentations and omissions to State Fund constitute unlawful, unfair, or fraudulent business acts and practices, under what is commonly known as the California Unfair Competition Law ("UCL"), California Business and Professions Code §§ 17200 *et seq.*

232. Each Defendant violated Section 17200's prohibition against engaging in an unlawful act or practice through conduct that violates, among other things, RICO, 18 U.S.C. § 1962, as described herein.

233. Pharmacy and Individual Defendants further violated Section 17200's prohibition against engaging in an unlawful act or practice through conduct that violates, among other things:

a. Cal. Bus. & Prof. Code §§ 4043 and 4160, by operating as a pharmaceutical wholesaler and submitting claims for reimbursement without the required license; and

b. Cal. Bus. & Prof. Code § 650.1, by entering into illegal fee splitting arrangements with physicians and providing monetary incentives for physicians to prescribe and dispense the Defendants' drugs.

234. In addition to being unlawful and fraudulent, each of Defendants' schemes to defraud State Fund constituted unfair business acts and practices under § 17200.

235. Defendants' unfair and unlawful practices were performed in California. For example, the fraudulent billings were sent to and received by State Fund in California.

236. State Fund has suffered injury to its business and property as a direct and proximate result of Defendants' unfair and unlawful practices.

237. Defendants have fraudulently received up to hundreds of millions of dollars from State Fund as a direct and proximate result of their unfair and unlawful practices. Defendants have been unjustly enriched, and it would be inequitable to allow Defendants to retain the monies they obtained from State Fund through fraud or other unfair practices. Disgorgement should be awarded so as to achieve substantial justice between the parties.

238. State Fund is entitled to restitution for all amounts that Defendants have been unjustly enriched and for State Fund's damages, in an amount to be proven at trial, plus interest. Moreover, rescission of settlement agreements procured by fraud should be ordered, as described above.

PRAYER FOR RELIEF

WHEREFORE, State Fund prays for judgment against all Defendants as follows:

1. For compensatory damages in an amount to be proven at trial, and treble damages under the RICO statute in the first cause of action (Surgical Defendant Enterprise/Civil RICO);

2. For compensatory damages in an amount to be proven at trial, and treble damages under the RICO statute in the second cause of action (Pharmacy Defendant Enterprise/Civil RICO);

3. For compensatory damages in an amount to be proven at trial, and treble damages under the RICO statute in the third cause of action (Surgical Defendant Enterprise/Civil RICO Conspiracy);

4. For compensatory damages in an amount to be proven at trial, and treble damages under the RICO statute in the fourth cause of action (Pharmacy Defendant Enterprise/Civil RICO Conspiracy);

- 1 5. For an award of compensatory damages in an amount to be proven at
2 trial, plus an award of punitive and exemplary damages pursuant to the fifth cause of
3 action (fraud);
- 4 6. For restitution and disgorgement of unjust enrichment, plus interest,
5 pursuant to all appropriate causes of action;
- 6 7. For rescission of the settlement agreements pursuant to all appropriate
7 causes of action;
- 8 8. For an award of attorneys' fees and costs, pursuant to all appropriate
9 causes of action; and
- 10 9. For such other and further relief as the Court may deem just and proper.

11
12 Dated: August 28, 2013

IRELL & MANELLA LLP

13
14 By: _____

15 John C. Hueston
16 Attorneys for Plaintiff State
17 Compensation Insurance Fund
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ALJAZEERA

1 **JURY TRIAL DEMAND**

2 As it did in its initial Complaint, State Fund continues to demand a trial by
3 jury of all issues so triable on the claims alleged herein.

4
5 DATED: August 28, 2013

Respectfully submitted,

6 IRELL & MANELLA LLP

7
8 By: _____
9 John C. Hueston
10 Attorneys for Plaintiff State
11 Compensation Insurance Fund
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ALJAZEERA



EXHIBIT 1

ALJAZEERA

PACIFIC HOSPITAL OF LONG
DEPT LA22597

PACIFIC HOSPITAL OF LONG

DEPT LA22597
PASADENA CA 91185
562 59519113a PAT.
CNTL. #
b. MED.
REC. #4 TYPE
OF BILL
111

PASADENA CA 91185

5 FED. TAX NO.

6 STATEMENT
FROMCOVERS PERIOD
THROUGH

06/14/2012

06/27/2012

8 PATIENT NAME

9 PATIENT ADDRESS

10 BIRTHDATE

11 SEX

12 DATE

ADMISSION

13 HR

14 TYPE

15 SRC

16 DHR

17 STAT

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31 OCCURRENCE
DATE32 OCCURRENCE
DATE33 OCCURRENCE
DATE34 OCCURRENCE
DATE35 OCCURRENCE
DATEOCCURRENCE SPAN
FROMOCCURRENCE SPAN
THROUGHOCCURRENCE SPAN
THROUGH

04

WCCA10000 STATE COMP INSURANCE FU
PO BOX 65005

PINEDALE CA 93650

39 CODE

VALUE CODES
AMOUNT

40 CODE

VALUE CODES
AMOUNT

41 CODE

VALUE CODES
AMOUNT

42 REV. CD.

1

43 DESCRIPTION

44 HCPCS / RATE / HIPPS CODE

45 SERV. DATE

46 SERV. UNITS

47 TOTAL CHARGES

48 NON-COVERED CHARGES

49

0200

INTENSIVE CARE

1742.00

8

13936.00

1

0200

INTENSIVE CARE

2745.00

5

13725.00

2

0250

PHARMACY

506

38242.42

3

0258

IV SOLUTIONS

40

10448.00

4

0270

MED-SUR SUPPLIES

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54126.00

5

0272

STERILE SUPPLY

40

6254.00

6

0278

SUPPLY/IMPLANTS

11

331334.00

7

0300

LABORATORY or (LAB)

16

337.00

8

0301

LAB/CHEMISTRY

15

5401.68

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0302

LAB/IMMUNOLOGY

1

245.00

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0305

LAB/HEMATOLOGY

34

3134.00

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0306

LAB/BACT-MICRO

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80.00

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PATHOLOGY LAB

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198.00

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0320

DX X-RAY

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3854.00

14

0351

CT SCAN/HEAD

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3000.00

15

0352

CT SCAN/BODY

1

3000.00

16

0360

OR SERVICES

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71008.00

17

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OR/OTHER

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500.00

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ANESTHESIA

85

27182.00

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BLOOD/STOR-PROC

2

644.00

20

0391

BLOOD/ADMIN

1

925.00

21

0410

RESPIRATORY SVC

1

380.00

22

PAGE OF

CREATION DATE 07/06/2012

TOTALS

50 PRIOR NAME

51 HEALTH PLAN ID

52 REL.
INFO53 AMT
BEN.

54 PRIOR PAYMENTS

55 EST. AMOUNT DUE

56 NPI

STATE COMP INSURANCE FU

Y

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57

OTHER

PRV ID

58 INSURED'S NAME

59 P.REL.

60 INSURED'S UNIQUE ID

61 GROUP NAME

62 INSURANCE GROUP NO.

20

STATE COMP INS

63 TREATMENT AUTHORIZATION CODES

64 DOCUMENT CONTROL NUMBER

65 EMPLOYER NAME

10000126058

66 DX

721.3

300.00

V45.4

997.49

560.1

291.0

296.22

303.91

427.31

68

69 ADMIT
DX

721.3

70 PATIENT
REASON DX71 PPS
CODE

454

72 ECI

E878.8

73

74 PRINCIPAL PROCEDURE
CODE

81.06

06/14/2012

75 OTHER PROCEDURE
CODE

81.07

06/14/2012

76 OTHER PROCEDURE
CODE

77.79

06/14/2012

77 OTHER PROCEDURE
CODE

54.11

06/14/2012

78 OTHER PROCEDURE
CODE

81.63

06/14/2012

79 OTHER PROCEDURE
CODE

84.51

06/14/2012

80 REMARKS

81CC

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c

d

LAST

FIRST

78 OTHER

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QUAL

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FIRST

PACIFIC HOSPITAL OF LONG
DEPT LA22597

PACIFIC HOSPITAL OF LONG

DEPT LA22597
PASADENA CA 91185
562 59519113a PAT.
CNTL. #
b. MED.
REC. #4 TYPE
OF BILL
111

PASADENA CA 91185

5 FED. TAX NO.

6 STATEMENT
FROMCOVERS PERIOD
THROUGH

06/14/2012

06/27/2012

8 PATIENT NAME a b 8 PATIENT ADDRESS a b

10 BIRTHDATE 11 SEX 12 DATE 13 HR 14 TYPE 15 SRC 16 DHR 17 STAT 18 19 20 21 22 23 24 25 26 27 28 29 ACCT
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06/14/2012 05 3 1 14 01 CA31 OCCURRENCE DATE 32 OCCURRENCE DATE 33 OCCURRENCE DATE 34 OCCURRENCE DATE 35 OCCURRENCE SPAN FROM THROUGH 36 OCCURRENCE SPAN FROM THROUGH 37
0438 WCCA10000 STATE COMP INSURANCE FU
PO BOX 65005
PINEDALE CA 93650
39 CODE VALUE CODES AMOUNT 40 CODE VALUE CODES AMOUNT 41 CODE VALUE CODES AMOUNT
a
b
c
d

| 42 REV. CD. | 43 DESCRIPTION | 44 HCPCS / RATE / HIPPS CODE | 45 SERV. DATE | 46 SERV. UNITS | 47 TOTAL CHARGES | 48 NON-COVERED CHARGES | 49 |
|-------------|-------------------|------------------------------|---------------|----------------|------------------|------------------------|----|
| 0412 | INHALATION SVC | | | 1 | 162.00 | | 1 |
| 0420 | PHYSICAL THERP | | | 17 | 3442.00 | | 2 |
| 0424 | PHYS THERP/EVAL | | | 1 | 525.00 | | 3 |
| 0460 | PULMONARY FUNC | | | 32 | 5841.00 | | 4 |
| 0480 | CARDIOLOGY | | | 2 | 2248.00 | | 5 |
| 0636 | DRUGS/DETAIL CODE | | | 553 | 69162.16 | | 6 |
| 0710 | RECOVERY ROOM | | | 9 | 2627.00 | | 7 |
| 0771 | VACCINE ADMIN | | | 1 | 250.00 | | 8 |
| 0940 | OTHER RX SVS | | | 4 | 2200.00 | | 9 |
| 0001 | TOTAL CHARGE | | | 0 | 674411.26 | 0.00 | 10 |
| | | | | | | | 11 |
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PAGE OF

CREATION DATE 07/06/2012

TOTALS

50 PRIOR NAME 51 HEALTH PLAN ID 52 REL. INFO 53 AVG BEN 54 PRIOR PAYMENTS 55 EST. AMOUNT DUE 56 NPI
STATE COMP INSURANCE FU Y Y OTHER PRV ID58 INSURED'S NAME 59 P. REL 60 INSURED'S UNIQUE ID 61 GROUP NAME 62 INSURANCE GROUP NO.
20 STATE COMP INS63 TREATMENT AUTHORIZATION CODES 64 DOCUMENT CONTROL NUMBER 65 EMPLOYER NAME
10000126058

66 721.3 300.00 V45.4 997.49 560.1 291.0 296.22 303.91 427.31 68

69 ADMIT DX 70 PATIENT REASON DX 71 PPS CODE 72 E878.8 73

74 PRINCIPAL PROCEDURE CODE 75 OTHER PROCEDURE CODE 76 OTHER PROCEDURE CODE
81.06 06/14/2012 81.07 06/14/2012 77.79 06/14/2012
54.11 06/14/2012 81.63 06/14/2012 84.51 06/14/201280 REMARKS 81CC a b c d
LAST FIRST
78 OTHER NFI QUAL
LAST FIRST

P.O. Box 11535
Newport Beach, CA 92658

Phone: (888) 488-2636

Fax: (949) 870-3888

| Date | Invoice # |
|-----------|-----------|
| 6/14/2012 | 11826 |

| Bill To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

| Ship To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

International Implants is an FDA Registered Manufacturer.
Registration #10027203

| P.O. Number | Terms |
|--------------|--------|
| PHLB - 78547 | Net 60 |

| Patient Name | Patient Number |
|--------------|----------------|
| | |

| Quantity | Item Code | Description | Price Each | Amount |
|----------|-----------|--|------------|-----------|
| 2 | 12-7540 | MALIBU POLYAXIAL SCREW 7.5MMX40MM | 2,601.00 | 5,202.00 |
| 12 | 13-6540 | MALIBU POLYAXIAL REDUCTION SCREW 6.5 X 40MM | 2,998.00 | 35,976.00 |
| 1 | 12-2052 | MALIBU CROSSBAR MEDIUM, 5.5MM ROD | 3,008.00 | 3,008.00 |
| 1 | 12-2075 | MALIBU CONTOURED CROSSBAR LARGE 5.5 ROD.. | 3,008.00 | 3,008.00 |
| 2 | 10-1025 | MALIBU ROD, 6.5MM x 250MM | 805.00 | 1,610.00 |
| 14 | 12-0010 | MALIBU LOCKING CAP | 436.00 | 6,104.00 |
| 1 | 93-0800 | MALIBU, J STYLE NEEDLE | 275.00 | 275.00 |
| 1 | 93-2113 | HERMOSA, CORING TIP | 803.00 | 803.00 |
| 1 | 55-3212 | ZUMA IMPLANT, 32MM X 25MM X 12MM, 8 DEG | 17,149.00 | 17,149.00 |
| 3 | 55-3214 | ZUMA IMPLANT, 32MM X 25MM X 14MM, 8 DEG | 17,149.00 | 51,447.00 |
| 1 | 55-3314 | ZUMA IMPLANT, 32MM X 25MM X 14MM, 12 DEG.... | 17,149.00 | 17,149.00 |
| 10 | 55-5525 | ZUMA BONE SCREW 5.5 X 25MM | 1,089.00 | 10,890.00 |
| 2 | 55-5530 | ZUMA BONE SCREW, 5.5MM X 30MM | 1,089.00 | 2,178.00 |
| 1 | 55-6012 | ZUMA LOCKING COVER, 12MM | 429.00 | 429.00 |
| 2 | 55-6014 | ZUMA LOCKING COVER, 14MM.... | 429.00 | 858.00 |
| | Freight | Freight | 75.00 | 75.00 |
| | | Orange County Sales Tax Rate | 7.75% | 0.00 |

For product information: (888) 488-2536

Total \$166,161.00

Purchase Order Listing

PO Date: 8/8/2012

Page 1 of 1

PO Number: PHLB-79549

Auxiliary PO Number:

Approver:

(Please refer to this PO Number on all correspondence)

To: V8917

Ship-To: 1

Bill-To: 2

SEASPIRE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE: 909-656-4850 FAX: 909-656-5530

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90806

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90806

Delivery Date: 8/8/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: NET

| Line | Qty | UM / Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|---------------|----------------------|--|----------------------|-----------------------------------|------------|--------------|
| 1 | 8 | EA / 1 | 13-8540 | MALIBU POLYAXIAL REDUCTION SCREW 6.5X40MM | 74200SURG SURGERY | 01.7420.3100 | \$773.0000 | \$6,184.0000 |
| 2 | 2 | EA / 1 | 12-1100 | PRECONTOURED ROD 5.5 100MM | 74200SURG SURGERY | 01.7420.3100 | \$143.0000 | \$286.0000 |
| 3 | 8 | EA / 1 | 12-0010 | LOCKING CAPS | 74200SURG SURGERY | 01.7420.3100 | \$95.0000 | \$760.0000 |

Comments:

DOS 8/8/12 FC04

Sub Total: \$7,230.0000
Tax: \$0.0000
Handling: \$0.0000
Freight: \$0.0000
Discount: \$0.0000
PO Total: \$7,230.0000

Authorized By:

m. 8/9/12

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PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2666
Fax: 562-991-6371

PO Number: PHLB-79549

PO Date: 8/8/2012

Buyer:

Purchase Order Listing

PO Date: 11/8/2012

Page 1 of 1

PO Number: PHLB-81244

Auxiliary PO Number:

Approver:

(Please refer to this PO Number on all correspondence)

To: V5917

Ship-To: 1

Bill-To: 2

SEASPINE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE: 908-858-4850 FAX: 908-858-5530

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90808.

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90808

Delivery Date: 11/8/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: N/60

| Line | Qty | UM/ Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|--------------|----------------------|--------------------------------------|-----------|-----------------------------------|--------------|--------------|
| 1 | 1 | EA / 1 | 55-3214 | ZUMA IMPLANT 32MMX25MMX14MM 8 DEG | 74200SURG | | \$3,400.0000 | \$3,400.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 2 | 1 | EA / 1 | 55-3312 | ZUMA IMPLANT 32MMX25MMX12MMX12DEG | 74200SURG | | \$3,400.0000 | \$3,400.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 3 | 8 | EA / 1 | 55-5525 | BONE SCREW 5.5MMX25MM | 74200SURG | | \$200.0000 | \$1,600.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 4 | 1 | EA / 1 | 55-6012 | LOCKING COVER 12MM | 74200SURG | | \$200.0000 | \$200.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 5 | 1 | EA / 1 | 55-6014 | LOCKING COVER 14MM | 74200SURG | | \$200.0000 | \$200.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 6 | 1 | EA / 1 | 95-5181 | DRILL | 74200SURG | | \$220.0000 | \$220.0000 |
| | | | | | SURGERY | 01.7420.4100 | | |

Comments:

DOS 10/31/12 FC04

Sub Total: \$9,020.0000
Tax: \$0.0000
Handling: \$0.0000
Freight: \$0.0000
Discount: \$0.0000
PO Total: \$9,020.0000

Authorized By:

me 11/8/12



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2556
Fax: 562-981-6371

PO Number: PHLB-81244

PO Date: 11/8/2012

Buyer:



EXHIBIT 2

ALJAZEERA

PACIFIC HOSPITAL OF LONG
DEPT LA22597

PASADENA CA 91185

PACIFIC HOSPITAL OF LONG

DEPT LA22597
PASADENA CA 91185
562 59519113a PAT.
CNTL. #
b. MED.
REC. #4 TYPE
OF BILL
111

5 FED. TAX NO.

6 STATEMENT
FROM
COVERS PERIOD
THROUGH
02/02/2012 02/07/20128 PATIENT NAME
9 PATIENT ADDRESS
10 BIRTHDATE
11 SEX
12 DATE
13 HR
14 TYPE
15 SRC
16 DHR
17 STAT
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14 TYPE
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10031 OCCURRENCE
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10042 REV. CD.
43 DESCRIPTION
44 HCPCS / RATE / HIPPS CODE
45 SERV. DATE
46 SERV. UNITS
47 TOTAL CHARGES
48 NON-COVERED CHARGES
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100PAGE OF
CREATION DATE 20120228
TOTALS50 PRYER NAME
51 HEALTH PLAN ID
52 REL.
INFO
53 AVG
BEN.
54 PRIOR PAYMENTS
55 EST. AMOUNT DUE
56 NPI
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10058 INSURED'S NAME
59 P. REL.
60 INSURED'S UNIQUE ID
61 GROUP NAME
62 INSURANCE GROUP NO.
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10063 TREATMENT AUTHORIZATION CODES
64 DOCUMENT CONTROL NUMBER
65 EMPLOYER NAME
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10069 ADMIT
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70 PATIENT
REASON DX
71 PPS
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10074 PRINCIPAL PROCEDURE
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PACIFIC HOSPITAL OF LONG
DEPT LA22597

PASADENA CA 91185

PACIFIC HOSPITAL OF LONG

DEPT LA22597
PASADENA CA 91185
562 59519113a PAT.
CNTL. #b. MED.
REC. #

5 FED. TAX NO.

8 STATEMENT
FROMCOVERS PERIOD
THROUGH

02/02/2012

02/07/2012

4 TYPE
OF BILL

111

8 PATIENT NAME a. [REDACTED] 8 PATIENT ADDRESS a. [REDACTED] b. [REDACTED] c. [REDACTED]

10 BIRTHDATE 11 SEX 12 DATE 13 HR 14 TYPE 15 SRC 16 DHR 17 STAT 18 19 20 21 CONDITION CODES 22 23 24 25 26 27 28 29 ACCT STATE 30
02/02/2012 06 3 1 12 06 W3 CA31 OCCURRENCE DATE 32 OCCURRENCE DATE 33 OCCURRENCE DATE 34 OCCURRENCE DATE 35 OCCURRENCE DATE 36 OCCURRENCE DATE 37
04 [REDACTED]38 WCCA10000 STATE COMP INSURANCE FU 39 CODE VALUE CODES AMOUNT 40 CODE VALUE CODES AMOUNT 41 CODE VALUE CODES AMOUNT
a [REDACTED] b [REDACTED] c [REDACTED] d [REDACTED]

| 42 REV. CD. | 43 DESCRIPTION | 44 HCPCS / RATE / HIPPS CODE | 45 SERV. DATE | 46 SERV. UNITS | 47 TOTAL CHARGES | 48 NON-COVERED CHARGES | 49 |
|-------------|-----------------|------------------------------|---------------|----------------|------------------|------------------------|----|
| 0278 | SUPPLY/IMPLANTS | | | 4 | 178457.60 | 0.00 | 1 |
| 0272 | STERILE SUPPLY | | | 9 | 2700.00 | 0.00 | 2 |
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PAGE OF

CREATION DATE 20120228

TOTALS

50 PAYER NAME 51 HEALTH PLAN ID 52 REL. INFO 53 AVG. BEN. 54 PRIOR PAYMENTS 55 EST. AMOUNT DUE 56 NPI 57 OTHER PRV ID
STATE COMP INSURANCE FU Y Y [REDACTED]58 INSURED'S NAME 59 P. REL. 60 INSURED'S UNIQUE ID 61 GROUP NAME 62 INSURANCE GROUP NO.
[REDACTED] 20 [REDACTED] STATE COMP INS [REDACTED]63 TREATMENT AUTHORIZATION CODES 64 DOCUMENT CONTROL NUMBER 65 EMPLOYER NAME
08000092401 [REDACTED] [REDACTED]

66 DX 722.10 285.1 721.3 722.52 250.00 401.9 V45.4 V15.82 68

69 ADMIT DX 722.10 70 PATIENT REASON DX 71 PPS CODE 454 72 ECG 73

74 PRINCIPAL PROCEDURE CODE 75 OTHER PROCEDURE CODE 76 OTHER PROCEDURE CODE 77 OTHER PROCEDURE CODE 78 OTHER PROCEDURE CODE
81.06 02/02/2012 81.07 02/02/2012 81.37 02/02/2012 80.51 02/02/2012 77.79 02/02/2012 81.62 02/02/201280 REMARKS 81CC a b c d 78 OTHER NPI 79 OTHER NPI
LAST FIRST LAST FIRST

i2 International
Implants, Inc

P.O. Box 11635
Newport Beach, CA 92658

Phone: (888) 488-2636

Fax: (949) 870-3688

invoice

| Date | Invoice # |
|----------|-----------|
| 2/2/2012 | 11625 |

| Bill To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

| Ship To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

International Implants is an FDA Registered Manufacturer.
Registration #10027203

| P.O. Number | Terms | Patient Name | Patient Number | |
|---|-----------|---|----------------|-------------|
| PHLB-76912 | Net 60 | | | |
| Quantity | Item Code | Description | Price Each | Amount |
| 2 | 12-6540 | MALIBU POLYAXIAL SCREW 6.5MMX40MM | 2,601.00 | 5,202.00 |
| 6 | 12-6545 | MALIBU PLOYAXIAL SCREW 6.5 X 45MM... | 2,601.00 | 15,608.00 |
| 1 | 12-1080 | MALIBU PRECONTOURED ROD, 5.5 X 80MM | 955.00 | 955.00 |
| 1 | 12-1090 | MALIBU PRECONTOURED ROD, 5.5 X 90MM... | 955.00 | 955.00 |
| 1 | 93-0800 | J STYLE NEEDLE | 275.00 | 275.00 |
| 8 | 12-0010 | MALIBU LOCKING CAP | 436.00 | 3,488.00 |
| 2 | 55-3314 | ZUMA IMPLANT, 32MM X 25MM X 14MM, 12 DEG... | 17,149.00 | 34,298.00 |
| 1 | 55-3318 | ZUMA IMPLANT, 32MM X 25MM X 15MM, 12 DEG | 17,149.00 | 17,149.00 |
| 8 | 55-5525 | ZUMA BONE SCREW 5.5 X 25MM | 1,089.00 | 8,712.00 |
| 1 | 55-6014 | ZUMA LOCKING COVER, 14MM... | 429.00 | 429.00 |
| 1 | 55-6018 | ZUMA LOCKING COVER, 18MM | 428.00 | 429.00 |
| | Freight | Freight | 75.00 | 75.00 |
| For product information: (888) 488-2636 | | | Total | \$87,573.00 |

Purchase Order Listing

PO Date: 8/8/2012

Page 1 of 1

PO Number: PHLB-79549

Auxiliary PO Number:

Approver:

(Please refer to this PO Number on all correspondence)

To: V8917

Ship-To: 1

Bill-To: 2

SEASPIRE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE:909-656-4850 FAX:909-658-5530

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90806

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90806

Delivery Date: 8/8/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: NET

| Line | Qty | UM / Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|---------------|----------------------|--|----------------------|-----------------------------------|------------|--------------|
| 1 | 8 | EA / 1 | 13-8540 | MALIBU POLYAXIAL REDUCTION SCREW 6.5X40MM | 74200SURG SURGERY | 01.7420.3100 | \$773.0000 | \$6,184.0000 |
| 2 | 2 | EA / 1 | 12-1100 | PRECONTOURED ROD 5.5 100MM | 74200SURG SURGERY | 01.7420.3100 | \$143.0000 | \$286.0000 |
| 3 | 8 | EA / 1 | 12-0010 | LOCKING CAPS | 74200SURG SURGERY | 01.7420.3100 | \$95.0000 | \$760.0000 |

Comments:

DOS 8/8/12 FC04

Sub Total: \$7,230.0000
Tax: \$0.0000
Handling: \$0.0000
Freight: \$0.0000
Discount: \$0.0000
PO Total: \$7,230.0000

Authorized By:

m. 8/9/12

ALJAZEERA



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2666
Fax: 562-991-6371

PO Number: PHLB-79549

PO Date: 8/8/2012

Buyer:

Purchase Order Listing

PO Date: 11/8/2012

Page 1 of 1

PO Number: PHLB-81244

Auxiliary PO Number:

Approver:

(Please refer to this PO Number on all correspondence)

To: V5917

Ship-To: 1

Bill-To: 2

SEASPINE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE: 908-858-4850 FAX: 908-858-5530

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90808.

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90808

Delivery Date: 11/8/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: N/60

| Line | Qty | UM/ Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|--------------|----------------------|--------------------------------------|-----------|-----------------------------------|--------------|--------------|
| 1 | 1 | EA / 1 | 55-3214 | ZUMA IMPLANT 32MMX25MMX14MM 8 DEG | 74200SURG | | \$3,400.0000 | \$3,400.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 2 | 1 | EA / 1 | 55-3312 | ZUMA IMPLANT 32MMX25MMX12MMX12DEG | 74200SURG | | \$3,400.0000 | \$3,400.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 3 | 8 | EA / 1 | 55-5525 | BONE SCREW 5.5MMX25MM | 74200SURG | | \$200.0000 | \$1,600.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 4 | 1 | EA / 1 | 55-6012 | LOCKING COVER 12MM | 74200SURG | | \$200.0000 | \$200.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 5 | 1 | EA / 1 | 55-6014 | LOCKING COVER 14MM | 74200SURG | | \$200.0000 | \$200.0000 |
| | | | | | SURGERY | 01.7420.3100 | | |
| 6 | 1 | EA / 1 | 95-5181 | DRILL | 74200SURG | | \$220.0000 | \$220.0000 |
| | | | | | SURGERY | 01.7420.4100 | | |

Comments:

DOS 10/31/12 FC04

Sub Total: \$9,020.0000
Tax: \$0.0000
Handling: \$0.0000
Freight: \$0.0000
Discount: \$0.0000
PO Total: \$9,020.0000

Authorized By:

ME 11/8/12



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2556
Fax: 562-981-6371

PO Number: PHLB-81244

PO Date: 11/8/2012

Buyer:



EXHIBIT 3

ALJAZEERA

PACIFIC HOSPITAL OF LONG
DEPT LA22597

PACIFIC HOSPITAL OF LONG

DEPT LA22597
PASADENA CA 91185
562 59519114 TYPE
OF BILL

111

PASADENA CA 91185

5 FED. TAX NO.

6 STATEMENT
FROM

07/11/2012

7 COVERS PERIOD
THROUGH

07/14/2012

8 PATIENT NAME

8 PATIENT ADDRESS

10 BIRTHDATE

11 SEX

12 DATE

ADMISSION

13 HR

14 TYPE

15 SRC

16 DHR

17 STAT

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CONDITION CODES

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29 ACCT
STATE

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31 OCCURRENCE
CODE32 OCCURRENCE
DATE33 OCCURRENCE
DATE34 OCCURRENCE
DATE

35 CODE

OCCURRENCE SPAN
FROM

THROUGH

36 CODE

OCCURRENCE SPAN
FROM

THROUGH

37

38

WCCA10000 STATE COMP INSURANCE FU
PO BOX 65005

PINEDALE CA 93650

39 VALUE CODES
AMOUNT

40 CODE

VALUE CODES
AMOUNT

41 CODE

VALUE CODES
AMOUNT

42

43

44

45

42 REV. CD.

43 DESCRIPTION

44 HCPCS / RATE / HIPPS CODE

45 SERV. DATE

46 SERV. UNITS

47 TOTAL CHARGES

48 NON-COVERED CHARGES

49

0940 OTHER RX SVS

1

550.00

0001 TOTAL CHARGE

0

99820.00

0.00

PAGE OF

CREATION DATE 07/20/2012

TOTALS

50 PRIOR NAME

51 HEALTH PLAN ID

52 REL.
INFO53 AVG
BEN

54 PRIOR PAYMENTS

55 EST. AMOUNT DUE

56 NPI

STATE COMP INSURANCE FU

Y

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57

OTHER

PRV ID

58 INSURED'S NAME

59 P. REL.

60 INSURED'S UNIQUE ID

61 GROUP NAME

62 INSURANCE GROUP NO.

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STATE COMP INS

63 TREATMENT AUTHORIZATION CODES

64 DOCUMENT CONTROL NUMBER

65 EMPLOYER NAME

12000142050

66 DX

721.0

722.4

737.10

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69 ADMIT
DX

721.0

70 PATIENT
REASON DX71 PPS
CODE

473

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ECI

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PRINCIPAL PROCEDURE
DATEa. OTHER PROCEDURE
DATEb. OTHER PROCEDURE
DATEc. OTHER PROCEDURE
DATEd. OTHER PROCEDURE
DATEe. OTHER PROCEDURE
DATEf. OTHER PROCEDURE
DATEg. OTHER PROCEDURE
DATEh. OTHER PROCEDURE
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DATEk. OTHER PROCEDURE
DATEl. OTHER PROCEDURE
DATEm. OTHER PROCEDURE
DATEn. OTHER PROCEDURE
DATEo. OTHER PROCEDURE
DATEp. OTHER PROCEDURE
DATE

81.02

07/11/2012

80.51

07/11/2012

77.79

07/11/2012

81.62

07/11/2012

84.51

07/11/2012

89.15

07/11/2012

80 REMARKS

81CC

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c

d

78 OTHER

NPI

QUAL

LAST

FIRST

78 OTHER

NPI

QUAL

LAST

FIRST



P.O. Box 11535
Newport Beach, CA 92658

Phone: (888) 488-2636

Fax: (949) 870-3688

Invoice

| Date | Invoice # |
|-----------|-----------|
| 7/11/2012 | 11885 |

| Bill To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

| Ship To |
|--|
| Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806 |

International Implants is an FDA Registered Manufacturer.
Registration #10027203

| P.O. Number | Terms |
|--------------|--------|
| PHLB - 78985 | Net 60 |

| Patient Name | Patient Number |
|--------------|----------------|
| See Below | |

| Quantity | Item Code | Description | Price Each | Amount |
|----------|-----------|------------------------------|------------|----------|
| 1 | *57-2508 | ZUMA-C IMPLANT 15MM X 8MM | 6,800.00 | 6,800.00 |
| 2 | *57-4014 | ZUMA-C 4.0 X 14MM SCREW | 600.00 | 1,200.00 |
| 1 | *57-9208 | ZUMA-C 8MM LOCKING CAP | 400.00 | 400.00 |
| 1 | *92-0182 | SONOMA 12MM DRILL | 598.00 | 598.00 |
| | Freight | Freight | 75.00 | 75.00 |
| | | Patient Name: [REDACTED] | | |
| | | Orange County Sales Tax Rate | 7.75% | 46.35 |

For product information: (888) 488-2636

Total \$9,119.35

Purchase Order Listing

PO Date: 1/18/2012

Page 1 of 1

PO Number: PHLB-75582

Auxiliary PO Number

Approver:

(Please refer to this PO Number on all correspondence)

TO: V5917

Ship-To: 1

Bill-To: 2

SEASPIRE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE: 909-656-4850 FAX: 909-656-5630

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90806

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90806

Delivery Date: 1/18/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: N60

| Line | Qty | UM/ Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|--------------|----------------------|----------------------------|----------------------|-----------------------------------|--------------|--------------|
| 1 | 1 | EA / 1 | 57-2507 | ZUMA C IMPLANT 15X12X7 | 74200SURG SURGERY | 01.7420.3100 | \$2,000.0000 | \$2,000.0000 |
| 2 | 1 | EA / 1 | 57-2508 | ZUMA C IMPLANT 15X12X8MM | 74200SURG SURGERY | 01.7420.3100 | \$2,000.0000 | \$2,000.0000 |
| 3 | 4 | EA / 1 | 25-4014 | VARIABLE BONE SCREW 4.0X14 | 74200SURG SURGERY | 01.7420.3100 | \$200.0000 | \$800.0000 |
| 4 | 1 | EA / 1 | 57-9207 | ZUMA-C LOCKING COVER 7MM | 74200SURG SURGERY | 01.7420.3100 | \$100.0000 | \$100.0000 |
| 5 | 1 | EA / 1 | 57-9208 | ZUMA C LOCKING COVER 8MM | 74200SURG SURGERY | 01.7420.3100 | \$100.0000 | \$100.0000 |
| 6 | 1 | EA / 1 | 92-0184 | 14MM DRILL | 74200SURG SURGERY | 01.7420.4100 | \$235.0000 | \$235.0000 |

Comments:

DOS 1/18/12 FC04

| | |
|------------|--------------|
| Sub Total: | \$5,235.0000 |
| Tax: | \$0.0000 |
| Handling: | \$0.0000 |
| Freight: | \$0.0000 |
| Discount: | \$0.0000 |
| PO Total: | \$5,235.0000 |

Authorized By:



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2556
Fax: 562-981-6371

PO Number: PHLB-75582

PO Date: 1/18/2012

Buyer:

Purchase Order Listing

PO Date: 2/8/2012

Page 1 of 1

PO Number: PHLB-75989

Auxiliary PO Number:

Approval:

(Please refer to this PO Number on all correspondence)

To: V5917

Ship To: 1

Bill To: 2

SEASPIRE
6276 RIVERCREST DRIVE
RIVERSIDE, CA 92507
PHONE: 909-658-4850 FAX: 909-658-5530

PACIFIC HOSPITAL LONG BEACH
RECEIVING
2776 PACIFIC AVE
LONG BEACH, CA 90806

PACIFIC HOSPITAL OF LONG BEACH
ACCOUNTS PAYABLE
2776 PACIFIC AVE
LONG BEACH, CA 90806

Delivery Date: 2/8/2012

FOB:

Via:

PO Status: TRANSMITTED

Terms: N80

| Line | Qty | UM / Units | Vendor Product ID | Description | Location | Internal Product ID GL Account | Unit Price | Ext. Price |
|------|-----|------------|-------------------|--|-------------------|--------------------------------|--------------|--------------|
| 1 | 2 | EA / 1 | 57-2308 | ZUMA C IMPLANT 13X12X8MM | 74200SURG SURGERY | 01.7420.3100 | \$2,000.0000 | \$4,000.0000 |
| 2 | 3 | EA / 1 | 25-4012 | VARIABLE BONE SCREW DOUBLE LEAD 4.0X12MM | 74200SURG SURGERY | 01.7420.3100 | \$200.0000 | \$600.0000 |
| 3 | 1 | EA / 1 | 25-4512 | VARIABLE SCREW SINGLE LEAD 4.5X12MM | 74200SURG SURGERY | 01.7420.3100 | \$200.0000 | \$200.0000 |
| 4 | 2 | EA / 1 | 57-9208 | ZUMA C LOCKING COVER 8MM | 74200SURG SURGERY | 01.7420.3100 | \$100.0000 | \$200.0000 |
| 5 | 1 | EA / 1 | 92-0182 | LARGE TEMPORARY FIXATION P/N | 74200SURG SURGERY | 01.7420.4100 | \$235.0000 | \$235.0000 |

Comments:

DOS 2/11/12 FC04

Sub Total: \$5,235.0000
Tax: \$0.0000
Handling: \$0.0000
Freight: \$0.0000
Discount: \$0.0000

PO Total: \$5,235.0000

Authorized By:



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-897-2556
Fax: 562-881-5371

PO Number: PHLB-75989

PO Date: 2/8/2012

Buyer: